

OVERSEAS NEWS

S Korea tries to curb rise in land prices

By John Riddick in Seoul

SOUTH KOREA has announced measures aimed at curbing real estate speculation and the sharp increase in land prices.

The rise in land prices and rental charges – which have increased by up to 50 per cent over the last year – is the most pressing social issue facing the Government. Homelessness has increased sharply and inflation threatens to reach double figures this year.

Under the new measures, failure to register real estate transactions will be punishable by heavy fines and imprisonment.

In addition, the Government will set up 20 special task force teams to crack down on speculation and to investigate illegal issuance of land transaction permits.

But analysts greeted the measures with scepticism and argued that they would do little to resolve the problem. Private real estate experts said the measures were impractical and doubted whether they could be properly enforced.

The stock market, which has suffered from the flow of funds into real estate speculation, fell further on the announcement of the new measures, breaking the psychological 500 point barrier to stand more than 10 per cent below the level at the beginning of the year.

The government is under strong political pressure to resolve the problem of escalating house and rental prices.

In 1989, the national price of land increased by an average of 32 per cent, according to the Economic Planning Board, and rental prices in some areas of Seoul have risen by 50 per cent over the same period.

As a result, most Koreans are now unable to afford their own home and there have been suicides prompted by the threat of homelessness.

The Government has said that it will build 2m new homes by 1992 and that it will spend 5.2 trillion Won (\$4.5bn) in the current year on housing construction. It will also relax restrictions on new buildings in an attempt to improve the supply of housing.

Southern overture

South Korea will renew its proposals for direct communications, travel and trade with Communist North Korea when dialogue resumes, possibly in May, according to news reports quoted by AP-DJ in Seoul.

Chosun Ilbo, the largest daily newspaper, said in a front-page story that South Korea planned to suggest opening road, railway and sea connections with the North and would propose creating a post office and telephone centre to handle inter-Korea contacts.

Trade round failure 'could lead to chaos'

By Alan Pike

FAILURE of the General Agreement on Tariffs and Trade's Uruguay Round could leave "chaos and impoverishment as its legacy," a group of prominent political and business leaders warned yesterday.

At its inaugural meeting the Eminent Persons Group on World Trade, set up to exert world-wide pressure for free trade, called for political resolve to help the Uruguay Round talk to success by their December deadline.

The group consists of current and former politicians and business leaders from around the world. Members decided at yesterday's meeting, in London, to send a message to trade ministers who are meeting in Mexico this week calling on them to exercise leadership on world trade.

It will be making similar appeals for the success of the Uruguay Round negotiations to ministers meeting at the OECD next month. Leaders of developing countries gathering in Kuala Lumpur in June and July's economic summit in Houston.

Mr Otto Lambdorff, former West German Economic Minister and chairman of the Eminent Persons Group, said after yesterday's meeting that he recognised that other world events, notably developments in Eastern Europe, were distracting attention from the trade issue.

Inquiry into Iraqi 'big gun' aims at three broad targets

FROM INTERCONTINENTAL "doom gun" to monumental red herring, the versions of Britain's tubes-for-Iraq story range from the sinister to the ridiculous. Five days after the climax of Operation Bertha – the impounding of a shipment of gun castings at Teesport, northeast England – government officials were yesterday still awaiting an outcome from the investigation.

Three broad hypotheses have been put forward for the tubes' purpose:

- They are a 40-metre gun. This is British Customs and Excise's version. It corresponds to the combined length of the eight sections of one-metre bore tubing found at Teesport and, say, Customs, matches designs published by Dr Gerald Bull, the Canadian gun scientist shot dead last month in Brussels, apparently by a professional killer.

- A revised version of this theory is that the gun would launch satellites rather than weapons. But Customs said:

"Nobody has unpacked them yet."

The manufacturer says the pipes

say the gun, inspired by Dr Bull's US-backed work in the 1960s, would be equally able to put a booster-assisted shell or rocket into low orbit.

Dr Bull's Brussels company, Space Research Corporation, acted as intermediary both for this £1.3m shipment from Sheffield Forgemasters and for a separate order from Walter Somers of Halesowen near Birmingham, according to Customs.

Some reports suggested that the 40 castings already sent to Iraq by Sheffield Forgemasters might have formed two prototype barrels.

The company accepted yesterday that the eight sections at Teesport used different thicknesses of metal, with a constant internal bore, which would be consistent with the gun theory. But it insisted that they did not fit together. Asked about this assertion, a Customs spokesman said:

"Nobody has unpacked them yet."

The manufacturer says the pipes

The British Government is still awaiting the outcome of an investigation into the large metal castings impounded in Teesport last week. David White, Defence Correspondent, looks at the options.

were meant to make up two 26-section lengths, each of 156 metres, for the petrochemical industry. This has given rise to a second alternative:

- They are part of a 156-metre gun. Customs dismiss this one. Although some ballistic experts think such a long-range weapon would be possible, few are prepared to believe that Iraq could even contemplate the technological leap required to make

a gun of that size work.

The 40-metre gun would already be a considerable technological challenge. Experts say the breech-block alone would be a major engineering feat. Dr Bull's experimental space guns were 16-inch calibre, the biggest size of gun in service today (on Second World War-era US battleships) and less than half that of Sheffield Forgemasters' tubes.

The Customs spokesman rejected a report suggesting Iraq was planning to use the detonator capacitors which were seized last month at Heathrow as a means for setting off supplementary charges in the barrel of a big gun.

For either gun theory, the investigation will turn on the projectile. On whose assistance was Iraq counting? British officials indicated that attention was focusing on Belgium, which has two companies producing large-calibre ammunition: Meear, a subsidiary of Allied Research Associates of

the US; and PRB, bought last year by Astra of the UK.

PRB was previously involved in a joint artillery venture with Dr Bull. Mr Roy Barber, non-executive chairman of Astra, said yesterday: "Our understanding is that PRB's connections with Dr Bull were some years ago, and that the connections were quite proper."

Mr Christopher Gumbley, former managing director of Astra, who is facing corruption charges, has denied reports that he met Dr Bull shortly before the latter's death.

European countries' rules governing exports to Iraq vary considerably. The UK's criterion, established during the Gulf war, is to prevent sales that would enhance either Iraq's or Iran's military capability. Wider restrictions are built into the Department of Trade and Industry's Security Export Control guidelines. These list items requiring export licences, whatever the destination.

Item ML2 covers "large-calibre armament . . . and specially designed components."

Any prosecution with respect to the Iraqi shipment would require evidence that the supplier knew what it was making. This leads us to the last theory – the supplier's:

- They are industrial pipes. Assuming that Iraq's petrochemical plans are less of a state secret than its weapons, it should be possible to demonstrate where these pipes fit.

British Customs are working on a theory that the earlier shipments may indeed have been genuine pipelines and that these supplies, cleared by the DTI, were used as attempted cover for a single, last consignment of gun-barrel sections.

All along, many military experts have thought the "super-gun" story far-fetched. But if the pipes are just pipes, why would Iraq order them through a company whose reputation rests on weapons expertise?

Eleven more die in Natal violence

By Hugh Carnegy in Jerusalem

ISRAELI officials yesterday reacted sharply to an announcement during a visit by Senator Robert Dole that he wanted the US Senate to rescind a recent resolution – co-sponsored by Dole – recognising Jerusalem as Israel's capital.

His reversal deepened differences between Israel and Washington on the status of

the city.

Police constable Bern McDade, a British immigrant, was found dead beside a road late on Saturday night with a bullet wound in his neck, a police report said.

The soldier was shot in the leg when his patrol was ambushed at the black township of Mpumalanga, one of the worst trouble spots in the recent upsurge in fighting in the province. The other nine deaths were in townships around Port Shepstone.

Troops have been called in to help quell the violence in Natal between rival black groups which has claimed more than 500 lives since the beginning of the year.

The troops, including a division of Portuguese-speaking recruits from Angola who have enlisted in the South African army, have mounted a crackdown in Natal in a bid to confiscate unlicensed and homemade guns, the police spokesman added.

They said the violence around Port Shepstone, far from the main scenes of violence, appeared to be a fight over land possession.

An internal leader of the African National Congress, Mr Walter Sisulu, criticised the Government's decision to deploy the Angolan soldiers.

He said that the battalion was a unit consisting mainly of notorious Angolan civil war soldiers and mercenaries from other European countries.

But an army spokesman said the decision was an attempt to show strict impartiality.

Dole upsets Israelis by reversing stand on status of Jerusalem

By Hugh Carnegy in Jerusalem

The non-binding Senate resolution was passed much to Israel's satisfaction after President George Bush and Mr James Baker, US Secretary of State, had resisted longstanding US policy which does not recognise Israel's annexation of Arab parts of Jerusalem in 1967.

The issue of Jerusalem's status was revived over the Easter weekend after a group

of Jewish settlers moved into the Christian quarter of Jerusalem's Old City.

Mr Teddi Kollek, Mayor of Jerusalem, sent a telegram to Mr Dole spelling out his opposition to repeat of the Senate resolution.

Mr Yonah Ahimeir, a senior aide to Mr Yitzhak Shamir, the Prime Minister, said: "Whatever the declarations of Mr Dole or the US, they will not

change the fact in this country and the Middle East that Jerusalem is under our control, our sovereignty and will remain as it is, the capital of Israel and a united city."

Mr Dole, Senate Republican leader, said talks in Syria, Iraq, Jordan and Egypt had convinced him that the Senate resolution was an obstacle to Middle East peace talks. He now believes the status of Jerusa-

lem should be subject to negotiation.

The Senator also irked his Israeli hosts by reiterating that US aid to Israel should be cut and observing that US public support for Israel was undermined by violence in the occupied territories, where Israeli troops are fighting a 28-month-old Palestinian uprising.

His willingness to voice openly what many Israelis

believe is the private thinking of the Bush administration gave his statements extra weight.

There was discomfort at his restatement that the \$3bn Israel receives in military and economic grants a year should be cut – along with aid to other favoured countries such as Egypt and Pakistan – for emerging democracies in Eastern Europe.

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OVERSEAS NEWS

Soviet leaders search for a way out of the Lithuanian maze

AMONG THE strongest cases for Lithuania's independence came at the end of last week from the unlikely quarter of Gosplan, the state economic planning agency.

Its deputy chairman, Mr Alexander Troshin, published an article in the Rabochaya Tribune which made it so clear that the Soviet Union would benefit from seeing the back of the troublesome little republic that the reader wondered if, for all its warnings of Lithuanian adventurism - it was meant to prepare the Soviet audience for a severing of links.

Lithuania, he said, had cost the Soviet state Rbs50m since its incorporation in 1940, when it lagged behind the average Soviet economic standard by at least three years and only 7 per cent of its economy was industrialised.

In the past 25 years, Rbs54bn more had been spent on it than it had produced for the Soviet Union; and it enjoyed 23 times more investment per hectare on its agricultural complex than the Russian Federation - "the real reason for its higher agricultural productivity."

It was, said Mr Troshin, not just utterly dependent on the Union for oil and gas; these were supplied at way below world prices, while Lithuania's exports to the Union - meat, milk and consumer goods, particularly TV sets - were dearer and of a lower quality than those available on the world market. If the republic

hoped to achieve independence and continue the present terms of trade, it was "unrealistic and naive".

"What would be the point," he continued, "of the Union trading with an independent state in unfavourable conditions for itself, selling a tonne of oil for Rbs20 when it commands \$10-\$120 on the world market? Or a tonne of diesel at Rbs85 when it costs \$120 in world prices?"

Over the weekend, it looked as though the Soviet government was taking note of these good, if rhetorical, arguments.

It decided to deny Lithuania precisely those commodities which can be freely traded - oil and gas. It has done a very ambiguous thing, as politicians in Lithuania have realised. It has decided to turn a screw to exert discipline.

But it has also paid the back-handed compliment of underlining its independence, even if in a painful way. As Mr Vytautas Landsbergis, the Lithuanian President, remarked: "Moscow is to demand hard currency for these products [oil and gas], that will mean that Moscow considers us a foreign state."

However, there is another

line in the Soviet leadership's increasingly diverse reaction to challenges, one most evident in warnings it delivers to the West to steer clear of intervention in a problem it insists is internal. It sees - as Pravda made clear on Sunday - the hand of anti-Sovietism in calls for support of Lithuania; with many simply wanting rid of ungrateful expensive parts of the empire.

The first is the military, which is unambiguously hostile to loss of the strategically vital Baltics. The second is a mix of democratic movements, which see the Baltic states' desire for independence as a natural result of perestroika and glasnost, and patriotic Russian sentiments, with many simply wanting rid of ungrateful expensive parts of the empire.

There remains a possible exit from the crisis: capitulation in some form, once the sheer scale of the economic blockade becomes evident to Lithuania. But it could be seen how this could become a possibility.

All three Baltic republics were forcibly incorporated in the Soviet Union in 1940, as the USSR Supreme Soviet has had the courtesy to admit. The massacre of their intelligentsia and bourgeoisie after the war is now being exposed; reassertion of their nationhood has been elevated to an almost sacred crusade.

It is now Jannus-headed. It assures Mr Douglas Hurd, UK Foreign Secretary, that - as he put it last Wednesday - "a decision had been taken not to interrupt the flow of necessary supplies to Lithuania." And on Friday night it decides to interrupt supplies. It rules out talks, then allows Lithuanian envoys last week to meet Mr Alexander Yakovlev, a senior and the most liberal member of the Soviet Party politburo.

This is hardly surprising, for it is playing to at least two ways, which may be called the Estonian option. On the face of it, that state has done much the same as Lithuania. It proclaimed independence on March 20 when its newly elected Supreme Soviet reasserted the validity of the pre-

1940 constitution. It has rebuffed Mr Gorbachev's demand that it rescind this declaration last week, as did Lithuania. And it has, like Lithuania, appealed to its young men not to join the Soviet army in the spring draft, encouraging them to sign up locally for alternative community service.

Last Friday, Mr Arnold Runtel, Estonian Supreme Soviet chairman, flew to Moscow for talks at the weekend with Mr Gorbachev and other Soviet leaders as they gathered in the Presidential Council to consider economic reforms.

Before he set off, he told me he would seek to impress on the Soviet leader the fact that Estonians had "of being swamped by Russian immigrants"; that the declaration of independence was not negotiable; and that talks must start soon on the *how* of independence, not on the *whether*.

As he said, the new government of Mr Edgar Savisaar, the Prime Minister, was measuring out its offices. The Economic Minister, Mr Jaak Leimann, said firmly he would emulate Poland in a rapid transition to a market economy. The Chair-

man of the Estonian Bank, Mr Rein Ostason, announced he had placed a contract for printing of Estonian currency, the Kroon, to be delivered by Christmas.

A few days before - on April 7 - the Estonian leadership had a visit from General Konstantin Kochetov, Soviet Deputy Defence Minister.

By pushing him towards Moscow, while the Congress keeps militancy high at home and signals to the world that independence is declared, they hope to have matched the kind of multi-layered, contradictory politics which Mr Gorbachev himself likes to play. To that extent, they are a better fit with Moscow than the more intransigent Lithuanians.

Long lines formed at petrol stations in Lithuania after expiry of Gorbachev's ultimatum threatening an economic blockade



Chinese openly discuss 'life after Deng'

By Peter Ellingsen in Peking

THE MOST privately asked, and publicly avoided, question in China - what will happen after "Emperor" Deng Xiaoping dies - has surfaced surprisingly in, of all places, the People's Daily, the Communist party's mouthpiece.

The raising of such a crucial and normally taboo subject on the first anniversary on Sunday of the death of the liberal former party chief, Hu Yaobang, suggests that hardliners within the party have the upper hand, and are preparing for Deng's passing.

Deng (85), paramount leader and the man most responsible for rallying the army behind

the party last year when massive democracy demonstrations occurred, is frail but apparently still in control. He is regularly rumoured to be ill and in recent public appearances has slurred his words.

He is still, however, able to exert influence when it matters and hold party factions together on divisive issues. The "after-Deng what?" line has come from the only figure with anything like Deng's stature, Chen Yun, the regime's high priest of Marxist-style central planning and a long-time critic of Deng's economic reforms.

Chen, who is 85 and almost

incapacitated, has not been seen since last October, but the party has given prominence to a speech he made in 1987 in which he said that Deng, "number one leader", will not be around "in a few years."

Chen, for decades an ideological adversary of Deng, is quoted as having told party leaders they soon have to carry the responsibility of ultimate office. In an indication that the more moderate line favoured by Deng during the 80s is now dead, he called on senior leaders to devote themselves to an intensive study of Marxism.

The article is especially revealing as Chen is a key

Japan's Olympic Committee head resigns

By Ian Rodger in Tokyo

MR YOSHIAKI TSUTSUMI, reckoned by Forbes magazine to be the world's richest man (excluding royalty) with net worth of at least \$15bn, resigned as chairman of Japan's Olympic committee following charges that he was using his position to help develop one of his companies' ski resorts.

The 55-year-old Mr Tsutsumi, who presides over the vast Seibu empire of railways, department stores and leisure businesses in Japan, assumed the post only last August as the campaign to win the 1998 Winter Olympics for a site in Nagano prefecture 100 miles

north west of Tokyo began to warm up.

Mr Tsutsumi (whose half brother, Seiji, runs Seibu Salmon, another large leisure group), said at a press conference to announce his resignation that a series of embarrassments suffered during the Asian Winter Games in Sapporo last month had a bearing on his decision.

Taken with similar recent articles from hard liners the release of Chen's speech suggests moderate thinking has all but been extinguished.

The ghosts of Tiananmen Square, Page 18

Four days later, officials mistakenly signaled to a Japanese skater in the 10,000-metre speed-skating event that he had one lap to go when actually he had two.

It was widely suggested that Mr Tsutsumi, who was acting only on a part time basis, was neither providing enough leadership to the organisation nor delegating enough authority to others. "I'm afraid I have put you to much trouble," he said.

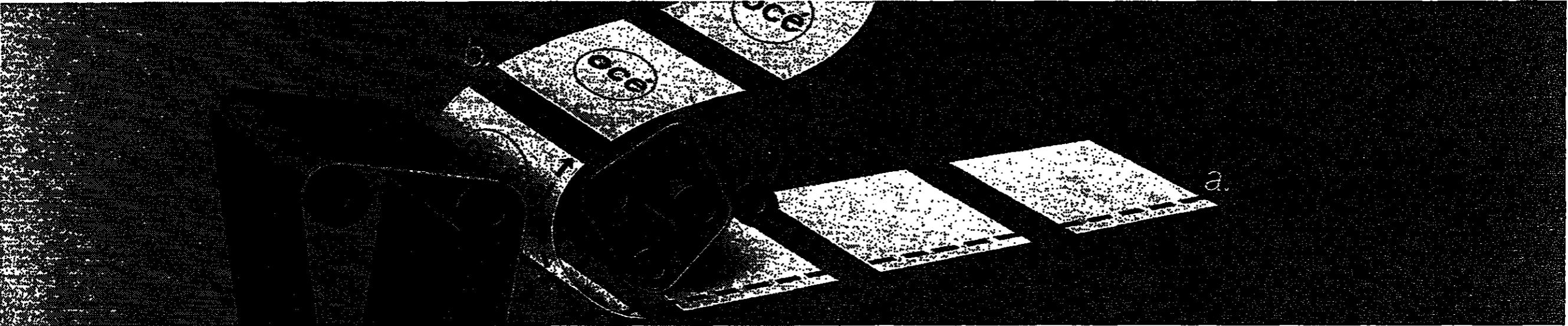
He suggested that the campaign for Nagano to hold the 1998 Winter Olympics would be badly damaged if similar mistakes were made in September when the International Olympic Committee convenes its 96th session in Tokyo.

"A part time president, as long as he has other jobs, can serve better by quitting his post," he said.

Mr Tsutsumi's decision to resign also follows criticism of plans to hold many of the ski events for the 1998 Olympics on or near the Seibu-owned ski resort at Shiga Kogen in Nagano.

Last week he decided to abandon plans to develop a new ski slope for the downhill olympics at Seibu's Shiga Kogen resort because of strong protests by environmentalists.

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UK NEWS

Radio authority will look for more specialisation

By Raymond Snoddy

THE WAY has been cleared for the creation of a national commercial radio station dedicated to classical music to compete with the BBC's Radio 3 by Mrs Margaret Thatcher, the Prime Minister.

She has decided that each of the three licences to be put out to competitive tender should be devoted to a different theme.

Her decision is in response to a warning from Lord Chalfont, chairman of the Radio Authority, that all three new national commercial radio stations should include a largely speech-based station and two or three different styles of music.

The amendment will require the Radio Authority to seek diversity between the three stations and add that this should include a largely speech-based station and two or three different styles of music.

That would give the authority the discretion to seek commercial operators for a news and speech station, a popular-music station and a classical-music station.

New York has two competing commercial classical-music stations, as well as a public broadcasting station, one of which, WQXR, has revenues of about \$8m (£4.5m) a year and pre-tax profits of over \$1m.

Lord Chalfont hopes to advertise for tenders for two of the three stations this autumn.

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Mr David Mellor, the Home

Tea and some sympathy for the Mormons

Kieran Cooke looks at the close-knit life-style of a 'hard green' area of north Belfast

THE two Mormon missionaries were going from door to door, their smart dark suits and clean-cut American looks strangely out of place in the working-class streets of Belfast.

"I'll always be a Catholic," said the woman at one doorstep. She offers the missionarist tea. "At least you've come to see us."

New Lodge in north Belfast is designated on British army maps a "hard green" area, a squarely middle-nationalist stronghold in which the IRA is known to operate. Few strangers venture on to its streets.

New Lodge is not representative of the whole of Northern Ireland far from it. But its problems are Northern Ireland's problems writ large: social, political and economic.

Only 5,700 people live in the area. It is almost exclusively Roman Catholic, surrounded by Protestant zones and security installations. Almost every approach to New Lodge is surveyed by police cameras or heavily fortified army posts.

The top floor of the "Ardley Flats" in the centre of the

district has been commandeered as an army lookout post, complete with the most modern surveillance equipment. Besieged and cut off as New Lodge appears, it has little working left for housing.

Mr Seamus McAloran is a local social worker born and reared in New Lodge. "This place is bursting at the seams. People want to move in here because they feel safe among their own kind. It might appear rough but there's a great sense of community."

For many years the people of New Lodge have lobbied for a community centre. Applications for funds were met with government resistance.

New Lodge is the territory of Sinn Fein, the IRA's political wing, with which the Government refuses to have contact.

The people of the area started their own planning and fund-raising programme. A special share scheme, with each household in the area paying a pound a week for set periods to become shareholders, has raised nearly £30,000.

That has been a considerable achievement in an area where

unemployment is more than 70 per cent, with nearly 90 per cent of those between 16 and 25 without jobs.

The Government was finally convinced of the need for a new centre, which will include workshop and job training units as well as retail outlets. It is contributing £400,000 to the scheme, with a similar amount coming from the International Fund for Ireland.

The work of the Government-sponsored "action teams" is now up to work alongside local community groups and to help liaise with government departments. "It is praised by the people of New Lodge."

"The Government seems to realise now that top-down schemes don't work. First you have to involve local people and get their approval," says Mr McAloran.

Until the late 1980s and the start of "the troubles" New Lodge was a mixed area, although even then certain streets were "orange," others "green" with skirmishes often occurring.

Then in the 1970s the religious geography of New Lodge

and many other parts of working-class Belfast radically changed. Residents of entire street moved out of one neighbourhood and into another. In what was the most sudden and wide-ranging population shift in post-war Britain.

Things might be more peaceful today than in the early 1970s. There are fewer killings. But Belfast working-class communities are considerably more divided.

The Government likes to say life is more normal now," says Mr McAloran. "But if this is very wrong."

"The view is heard just as often across in the Protestant Shankill area as in Catholic districts such as New Lodge. Residents of New Lodge might not approve of the IRA, but sympathetic to the presence of the security forces is as strong as ever. Residents say there is often no apparent reason for army actions; they say saturation searches have become more common.

One woman says she has had her house wrecked by the army five times in the last two years. "Four or five army men just move in. They shut the doors and ... keep us in one room, then dig up floors, rip out walls. Then ... the houses come along and find out how much compensation to give for the damage. It's crazy."

It is also part of a vicious circle. More IRA activity, or suspicion of it, brings more violence. In turn, that causes more friction and more violence. People become defiant and alienated.

As in many parts of Northern Ireland, there are plenty of parades. Trouble can break out at any time in New Lodge — yet people still persist in the old habit of keeping their front doors open. Children might have been influenced by the violence around them. But they are also comforted by a community where everyone knows everyone else.

Mrs Mary Blakely sits knitting in the new neighbourhood playgroup centre, a model of tranquillity amid tens of screaming children. "I'd never live anywhere else," she says.

CBI/FT DISTRIBUTIVE TRADE SURVEY

Optimism recedes as sales growth slows for wholesalers and retailers

By Peter Norman, Economics Correspondent

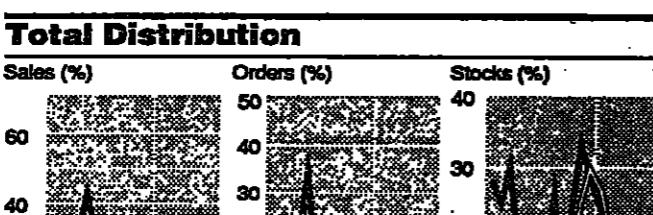
THE LATEST Confederation of British Industry/Financial Times distributive trade survey shows a slowdown in annual sales growth among both retailers and wholesalers last month and continued depressed conditions in the motor trades.

According to the survey, which polled 518 companies in the retail, wholesale and motor trades between March 9 and April 5, sales volumes grew more slowly in the year to March than in the year to February. Of the 518 concerns surveyed, 37 per cent said sales rose last month; 35 per cent said sales were unchanged and 28 per cent reported a drop in sales.

The resulting 9 per cent positive balance, which indicates the trend, compares with a 19 per cent balance in February and is below expectations.

A positive balance of 18 per cent of the distributors polled said they expected higher sales in April. However, such optimism has been misplaced in the past. Last month, a balance of 17 per cent of respondents said they expected higher sales in March.

Of the 299 retailers ques-



tioned, 46 per cent said that sales volumes in March were higher than a year earlier while 28 per cent said they were lower. That left a positive balance of 18 per cent reporting higher sales, down on February's 30 per cent balance and the lowest result since November last year.

The outturn last month compares with a 29 per cent positive balance of companies that expected higher March sales when polled a month ago.

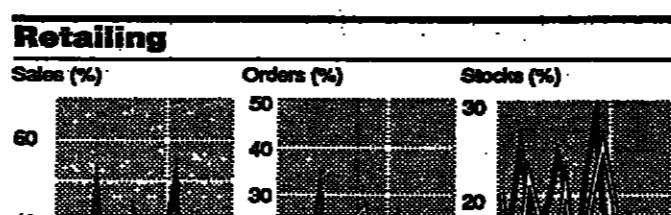
However, retailers appeared optimistic about prospects this

month. Some 51 per cent said they expected high sales volumes in April, compared with only 9 per cent expecting lower sales.

The result was a high positive balance of 42 per cent.

A positive balance of 22 per cent of retailers said they expected sales would be good for the time of year this month, compared with 18 per cent reporting good sales in March and only 8 per cent who expressed satisfaction with sales in February.

Chemists, grocers and sellers



of confectionery, tobacco and newspapers reported the best sales increases last month. Those groups, together with retailers of footwear and leather goods, were the most optimistic about sales in April.

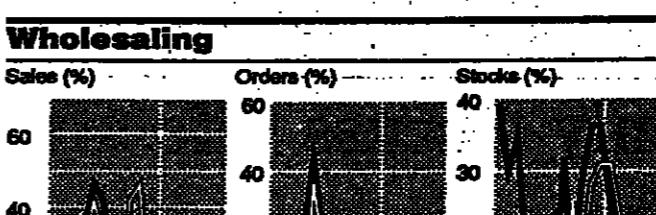
Bookellers and retailers of household items, such as textiles, furniture and carpets said sales in March fell below last year's levels and expected lower sales in April.

Altogether, the level of orders placed with suppliers by retailers fell slightly last month while stocks grew some-

what in relation to expected sales. A similar picture of slower sales growth emerges from the poll of wholesalers.

Of the 161 wholesale companies polled, 31 per cent said sales were higher last month compared with 23 per cent reporting a drop in sales and 44 per cent that said sales were unchanged. The 6 per cent positive balance for March compared with 19 per cent in February.

The 6 per cent balance in March is the second lowest since June 1984. A balance of



only 7 per cent of wholesalers expects increased sales in April relative to a year ago.

Wholesalers were disappointed with sales in March, with only 15 per cent saying sales were good for the time of year; against 27 per cent saying they were poor. The firms polled were similarly gloomy about April.

Food and drink wholesalers reported the best sales increases in March and April respectively. Builders' merchants and companies handling industrial materials, farm

machinery, and office equipment reported lower sales in March compared with the year before.

A gloomy picture emerged from the 58 motor traders polled. Only 30 per cent reported higher sales in March compared with 50 per cent who said that sales were down on a year ago.

A balance of 19 per cent said sales increased in March and April respectively. Builders' merchants and companies handling industrial materials, farm

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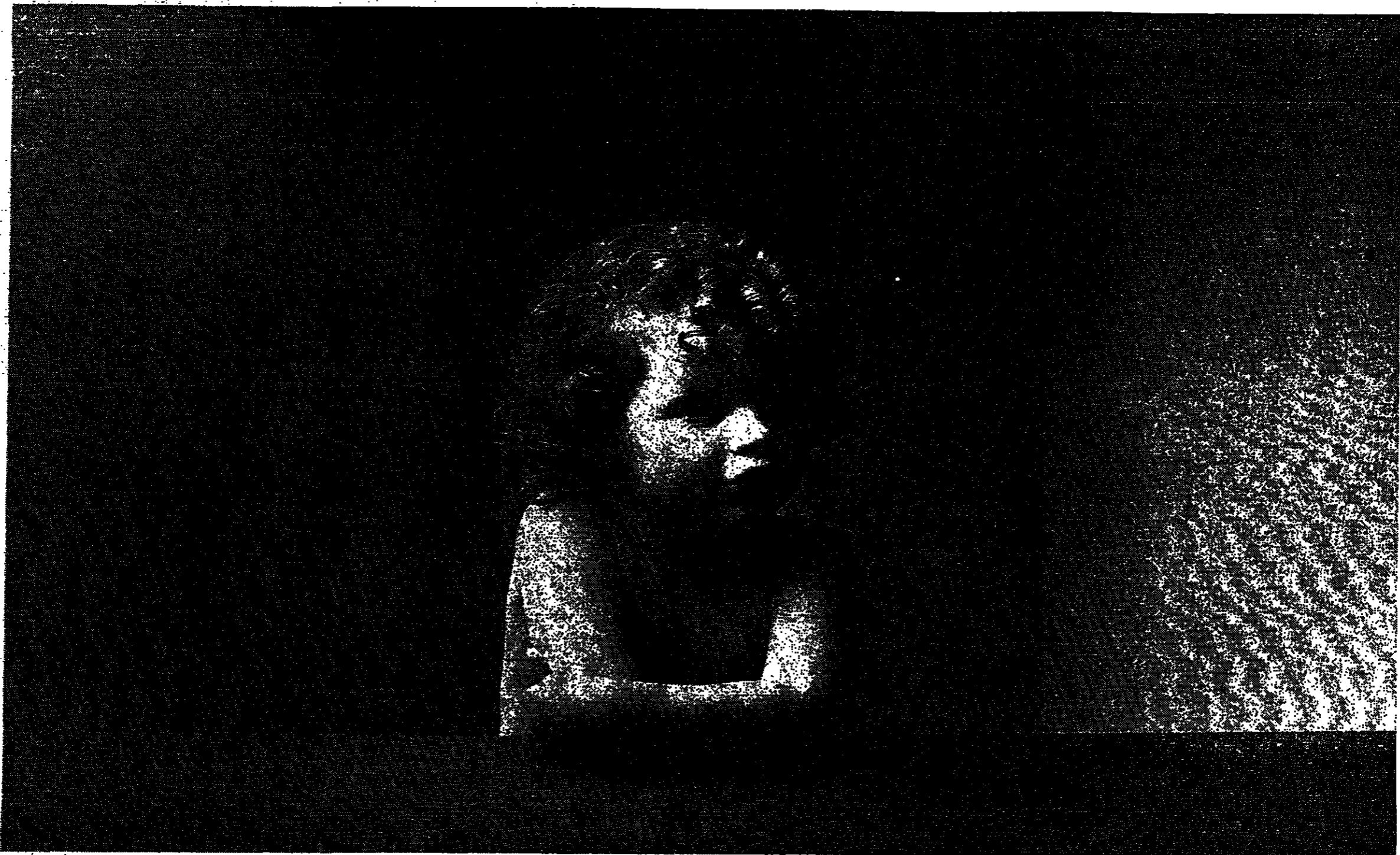
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Ever had to m-m-make a speech?

Ever had to cancel a holiday?

Ever been stuck in a suit when it's 80 in the shade?

Ever had to have "one last drink" with a client?

Ever been stuck in Stuttgart?

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UK NEWS

Patten's role in counter-attack

By Michael Cassell, Political Correspondent

MR Christopher Patten, the Environment Secretary, yesterday joined in the Conservative Party's counter-offensive intended to limit the extent of the now widely expected Tory losses in next month's local council elections.

Mr Patten, who will be a prominent member of the government's electioneering team up until May 3, attacked Labour councils for over-spending. He also accused the party nationally of supporting high spending and high taxation.

Mr Patten's remarks, in a letter to his local constituency chairman in Bath, coincided with the publication of a Conservative Party attack on what it described as "Labour's false prospectus" for next month's

elections. The document, entitled Beyond the Rose, sets out 11 policy areas, ranging from the replacement for the poll tax to local-government restructuring, claiming that the Opposition is refusing to spell out the details of its proposals.

It claims that Labour's plans for a "roof tax" would be deeply unfair and attacks the party for failing to say before the council elections how the tax would operate, who would be liable and how it would be related to incomes.

At the weekend, Mr Patten was trying to take some comfort from a poll the results of which suggested that 71 per cent of people supported the idea that everyone should con-

tribute towards the cost of local-government services.

He said it demonstrated strong support for the principles behind the poll tax provided the less well off were helped.

In his letter yesterday, he

said that if a Labour government was elected, people living in Labour-controlled boroughs would face "the ultimate socialist double - rocketing local bills and soaring income tax."

Mr Patten said it was not surprising that most of the 21 councils to be charge-capped were Labour-run.

"Labour council after Labour council will regard the charge of overspending as a political battle honour: some

Labour leaders, however, are trying to play down the pros-



Christopher Patten: attack on Labour's "roof tax".

pect of massive gains, for fear that failure to achieve over-ambitious targets could damage its present high standing with the electorate.

Businessmen protest over rate

By Richard Evans

A GROUP of businessmen in Bath, the constituency of Mr Chris Patten, Environment Secretary, is refusing to pay the new uniform business rate. Its members claim the big increases are driving them into bankruptcy.

Mr Nick Troup, co-chairman of Tory business facing rate increases of 420 per cent, said: "We know we are advocating breaking the law by not paying rates, but we feel we must do something."

They are instead paying their first rates instalment at last year's level plus 8 per cent to allow for inflation.

The protest follows the introduction on April 1 of the UBR, linked to the first revaluation of commercial property for 14 years, which has hit prosperous centres such as Bath particularly hard. Small busi-

nesses in the city, especially retailers, face increases of 500 per cent or more in their rate bills over the next five years.

Mr Troup is one of the founders of BARB (Business against Rate and Rent Increases) in Bath. He said:

"We are very concerned that the new UBR, coupled with rent increases, poses a real threat to businesses in and around Bath. We said:

"He added that 40 to 45 businesses had already gone under due to high rent increases.

• The Scottish National Party yesterday backed immediate abolition of the poll tax and its replacement by a local income tax based on ability to pay.

In a briefing paper published at a news conference in Edinburgh, party officials promised a complete reform of local authority finances to reflect

"fairness, democracy and ability to pay".

Mr Alasdair Morgan, national treasurer of the party, said it wanted a local business tax to replace non-domestic rates, based on turnover and reflecting businesses' ability to pay.

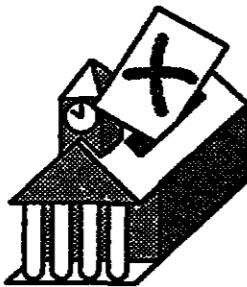
He called for an end to a £49m rating disparity, which he said put Scottish companies at a disadvantage against their English competitors.

He also criticised Labour's proposal for a roof tax to replace the poll tax or community charge.

"Labour's Roof Tax is not only grossly unfair but would take at least five years to implement. Thus Labour would expect Scots to continue to pay the Tory poll tax for the entire lifetime of a Labour government."

Stakes are high in a popularity test for Thatcher and the poll tax

Alison Smith looks at the wider implications of the Wandsworth and Westminster council campaigns for the Labour and Tory parties



LOCAL ELECTIONS

THE FUTURE of the poll tax and the Prime Minister may be decided on the streets of Earlsfield in south London and St James's in the West End, as local-government campaigners battle for control of the two Tory flagship councils - Wandsworth and Westminster.

The two councils have a high Tory profile and a low poll tax - at £145 and £185 respectively - but the Tories are in control by the narrowest of margins. At Westminster, they have a majority of four among 60 councillors, while their majority in Wandsworth is just one in a 61-seat council. A swing in the votes of fewer than 200 electors could determine the results in the two boroughs.

The stakes are high for both parties. Tory success in next month's elections would be hailed by the party nationally as a vindication of the community charge, even if local Tories would prefer to see them as a tribute to their record.

For Labour, stealing the jewels in the Prime Minister's crown would be a damning verdict on the poll tax, and a damaging - perhaps fatal - blow to Mrs Thatcher's standing in her party.

"It's almost all or nothing for

privatising and contracting-out local-government services, and selling council houses.

Mr Christopher Chope, their previous council leader, was elected to the Commons in 1983 and is now a junior environment minister. Sir Paul Beresford, their present leader, was knighted in the new year's honours list.

In Westminster, only £3m from reserves has been used to support the poll tax this year. However, Labour claims that the Government's upward revision of the standard spending assessment to take account of daytime population was designed particularly to benefit Westminster, which has a daytime population of 1m, but only 170,000 residents.

The Tories, however, point out that this year they have had to pay £75 a head into the safety net, and that they have consistently improved efficiency to enable them to set a low charge.

Both boroughs now symbolise the new face of Tory local government, but have previously had more mixed fortunes.

The Tory hold on Wandsworth has been slight but tenacious for more than 10 years. They have raised the profile of "the brighter borough" and have taken the lead

Mr Barry Legg, the Tory chief whip, says: "It's not an

issue with ordinary residents in Westminster. Local people are more interested in whether the streets are clean, and whether the community charge is at an acceptable level."

Westminster Tories' emphasis on local issues is slightly undermined by the close link between Lady Porter, their high-profile leader, and the Prime Minister, giving them less room than their Wandsworth counterparts to distance themselves from the plight of the national party.

Wandsworth Tories them-

selves are campaigning on their record of inexpensive but efficient services, combined with a vigorous attack on Labour-controlled Lambeth.

The example of Lambeth's £245 poll tax - capped by Mr Chris Patten, the Environment Secretary, to reduce it to £207

- is already on the way to over-exposure. The streets that form the border between Wandsworth and neighbouring Lambeth look likely to be worn smooth by visiting politicians.

Sir Paul Beresford describes Lambeth as "a good example of the way Labour runs the inner cities - it's not a good example of how to run the inner city." Campaign slogans draw heavily on the Lambeth experi-

ence. Ms Fiona MacTaggart, the leader of the Wandsworth Labour group, is angered by the Tory approach, which, she admits, has worried some people.

She says: "They're not getting up and saying Fiona MacTaggart is a wrecker, or a mob leader," because they know that if they argued that everybody would laugh at them. But they're using language in a way which implies that which is very clever, and very dishonest."

Yet both in Wandsworth and Westminster, Labour has taken pains to acquire a moderate and realistic image, admitting that most of the electorate in both areas gain from the poll tax. In Wandsworth, Labour has said that it would have set a poll tax of £171 this year, while in Westminster, it said it would have set a poll tax of £220.

If, against his expectations, the Tories should lose control of Wandsworth, Sir Paul Beresford says, "it will be because we have not got over to people that it's a local campaign on local issues."

By putting the poll tax centre-stage at the start of the campaign, Mr Kenneth Baker, the Tory party chairman, may not have made his colleagues' task any easier.

Sign of the times: Robertson Street, Clapham, where Wandsworth residents on one side benefit from a low poll tax, while Lambeth residents across the road face a steep bill

Chat to be relaunched by IPC

By Raymond Snoddy

WHEN Reed International became owners of Chat magazine last year as part of the \$113m TV Times acquisition the joke was that the entertainment-based tabloid was the "free cover gift" with the ITV listings magazine.

With a circulation that had slid from nearly 700,000 to just over 300,000 since 1986, the only question seemed to be when the closure of the magazine would come.

Instead this week IPC, Reed's UK magazine division, will announce its biggest relaunch yet. Chat will be reborn as a glossy-covered addition to the company's stable of women's weekly magazines that hold a dominant share of the market in spite of increased competition from continental European publishers.

"The first question was what to do to avoid closure," says Mr Mike Matthew, managing director of the IPC Woman's Magazines Group.

"Then we realised that what we had got behind this facade of a tabloid newspaper was another new product and one where somebody had already done the hard work," Mr Matthew added.

More than 40 focus groups of consumers have had their say in the metamorphosis of Chat, which has cost around £2m, including £1m being spent on a national television campaign.

The new target circulation is 1m copies a week.

The new Chat will be aimed at mid-market women aged between 25 and 34 and will be intended as competition for Take A Break, West German publisher Bauer's new entrant to the British women's magazine market, and the more established Bella. Chat's first issue comes with a free clipboard and pen.

After the Chat relaunch, Mr Matthew intends to "let the market settle down for a while and give us all time to consolidate."

US investment in energy company

By David Thomas, Resources Editor

UTILICORP, a large US energy utility based in Kansas City, is making its first investment in the UK in a further sign of the liberalisation of the British energy market.

It has paid \$17m for a 19.9 per cent stake in Norland Pipelines, a company established in February.

Utilicorp has already announced that it intends to invest up to \$20m in projects arising out of the privatisation of energy utilities in Europe.

British Steel has also taken a 25 per cent stake in Norland, the remainder of which is owned by individual investors with a background in the energy industries.

Mr Robert Howell, Utilicorp's vice-president of corporate development, said that Norland was intending to take advantage of the deregulation of the UK gas market.

Dr Alan Horan, a former British Petroleum executive who founded Norland, said he was still working on Norland's detailed strategy.

• The Government is expected to give the go-ahead soon for a new combined-cycle gas turbine power station at Killingholme in South Humberside to be built by National Power, one of the two generators to be privatised.

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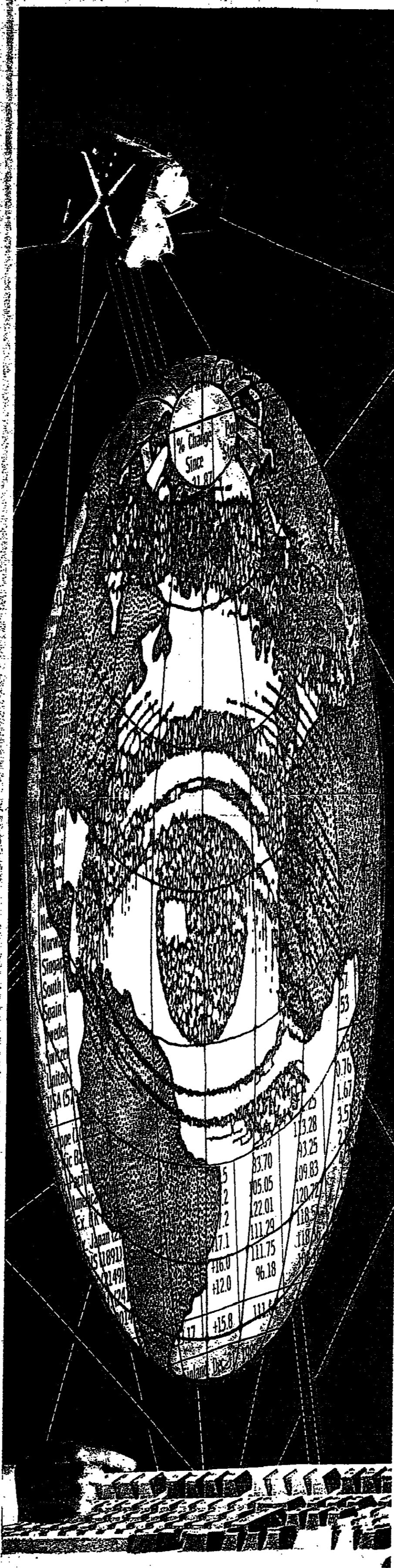
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UK NEWS

Profit fear in accounting rule change

By Richard Waters

A PLANNED accounting rule change would wipe nearly 10 per cent off the reported profits of the average large UK company, according to research to be published later this week.

The projected fall would result from a proposal from the Accounting Standards Committee that companies should write off the goodwill that arises from acquisitions against their profits over not more than 20 years, except in rare cases. At present they can

write it off immediately against reserves, leaving profits untouched.

The research, by Peter Walton of City University Business School, London, and Harold E. Wyman of University of Connecticut, confirms the fears of the many finance directors who have attacked the proposed change. Those fears persist, in spite of assertions from accountants, academics and others that a mere accounting change of this nature has no

effect on the way the outside world views a company.

According to the research,

goodwill charges in the US wiped an average of 4.6 per cent off the UK profits of the companies.

However, the US allows companies to write off their goodwill over a maximum of 40 years, compared with the UK's proposed 20, and most companies take advantage of the concession. That implies that the UK proposal would have about double the impact of the US rule.

THE HEAD of the accountancy profession in England and Wales has called on the Law Society to give solicitors the freedom to enter into multidisciplinary partnerships with accountants, writes Robert Rice, Legal Correspondent.

Mr Philip Couse, president of the Institute of Chartered Accountants, says it should be for clients to decide whether mixed practices provide them with a better service.

He says: "It is the responsibility of the legal and accountancy professions to offer clients the opportunity to enable

them to make this choice." The Government's controversial proposals for reform of the legal profession will lift the statutory ban on solicitors forming multidisciplinary partnerships with other professionals. The Law Society, however, is expected to exercise its power to impose rules preventing solicitors from joining such practices.

The solicitors' profession has moved in recent years from being broadly in favour of solicitors having the freedom to form multidisciplinary partnerships to a position of out-

right opposition. Ostensibly its reasons for opposing such practices are that they will threaten the profession's standards of independence, integrity and objectivity.

Many observers fear that smaller solicitors' firms would be dominated by big accountancy firms if joint practices were allowed, and might ultimately drive small operations out of business by dominating the provision of legal services in England and Wales.

Mr Couse, writing in the Law Society's Gazette, argues that it is doing members of

both professions an injustice to suggest that just because they are operating in a joint practice they will cease to maintain standards of independence, integrity and objectivity.

Nobody, he says, is suggesting that they should be forced to join mixed partnerships.

Mr Couse adds that with business becoming more international, pressure is growing on legal and accountancy firms to pool their resources.

A mixed practice allows one-stop shopping for these services, also the benefits of economies of scale.

Accountant supports solicitors' reforms

Lord Bruce-Gardyne: journalist, politician, author and outstanding individualist

LORD BRUCE-GARDYNE, who died yesterday at the age of 60, once wrote of Mrs Margaret Thatcher that she would "never be absorbed by the Establishment".

Although he came from a basically establishment background (son of an army officer),

OBITUARY

and educated at Winchester and Magdalen College, Oxford), the same could be said of him.

Jock Bruce-Gardyne was an outstanding individualist whose career spanned the Foreign Office, journalism, membership of both Houses of Parliament and the authorship of

several books which will continue to be read.

His career as a diplomat was short, but clearly left a deep impression on him: he distrusted the Foreign Office and thought that many of its officers spent too much of their time trying to score points against the French. Thus he abandoned diplomacy for journalism and became one of the first foreign correspondents of the Financial Times - in Paris in 1956.

It was there that he achieved what he modestly regarded as his only "scoop". He was asked to find out what was going on at a meeting of Cocom, the Nato committee that sought to set the rules for strategically

sensitive exports to Eastern Europe. He came across a Japanese journalist who used to be a diplomat and who gave him a full transcript of the meeting marked "Nato: top secret". It revealed a huge row between the British and the Americans. At the time, it was a sensation.

Jock moved on to politics, but never gave up writing. When Nigel Lawson was editor of The Spectator in the late 1960s, Jock was one of the main contributors on foreign affairs and already the MP for Angus. The relationship between Lawson and Bruce-Gardyne was a nexus that was to continue for many years.

At The Spectator, Jock somehow seemed superior - in the

nicest possible way - because he was a member of Parliament while Lawson was still looking for a seat. Both were economic radicals with an admiration of France and an ability to write. Later they wrote a book together on decision-making in government.

In the general election of February 1974 Jock failed to be re-elected at Angus, while Lawson won the safe Conservative seat at Blaby in Leicestershire. Bruce-Gardyne had already made his mark in Parliament. He was one of the principal Tory critics of the Heath administration after its U-turn on economic policy in 1972, along with Nicholas Ridley, John Biffen and Enoch Powell.

As he admits in his book, Ministers and Mandarins, published in 1986, Jock's spell at the Treasury was not a great success. The main difficulty was that the British system of government does not allow much of a role for junior minis-

ters. In any case, he was again in trouble with his keeping his seat. Knutsford was affected by boundary changes and he failed to find another constituency.

He was rewarded with a life peerage after the general election in 1983 and, as Baron Bruce-Gardyne of Kirkden in the District of Angus, played a full part in the Lords almost till the end.

It is tempting to say that he was a better journalist than politician and that he was an amiable eccentric who insisted, for instance, on riding a clapped-out bicycle when he could perfectly well have used more conventional means of transport. Both judgments,

however, would seriously underestimate the man.

Jock returned to Knutsford in Cheshire shortly before the general election of 1979. Mrs Thatcher had often said that she regarded him as "Cabinet material" and made him a junior minister at the Treasury in 1981. Nicholas Ridley moved in with him.

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As for eccentricity, it was more a stubborn independence.

He was an individualist, but not a loner. He worked hard and kept his deadlines. Last year he wrote a moving article in The Spectator about what it was like to know that you did not have much longer to live. What else could you do, he asked, except go on trying to carry on what you had done before?

He went on writing and he went on thinking. It was always a pleasure to talk to him and to read him. Jock will be remembered after many people who achieved higher political office have been forgotten. He leaves a widow, Sally, and three children.

Exhibition deals found to be against public interest

By David Churchill, Leisure Industries Correspondent

PREFERENTIAL treatment given to some electrical contractors in supplying services to London exhibition venues operates against the public interest, the Monopolies and Mergers Commission has decided.

The commission says the arrangements "restrict competition, discourage new entry into the market and inhibit the growth of potential competition."

The commission launched its investigation after complaints made to the OFT by some exhibition organisers that they were forced to give preferential treatment to electrical contractors nominated by the exhibition hall owners.

The commission's recommendations - accepted by Mr

Nicholas Ridley, Trade and Industry Secretary - to restore competition include:

- "Tying arrangements" between exhibition hall owners and electrical contractors should be prohibited.

- Where a group of companies includes the exhibition organiser, the venue, and the electrical contractor, then neither the organiser nor the venue could use the same group's electrical contractor.

- Commission payments by electrical contractors to exhibition hall owners or organisers should be prohibited.

- A detailed schedule of prices of electrical contracting services should be available.

Electrical Contracting at Exhibition Halls in London; MMC; Caud 93; HMSO; £7.40.

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575	Armitage and Blowers	23	-2				
11,800,000	Bardon Group (SD)	150m	-6	4.3	2.9	14.6	
18,421	Bardon Group Co. Prf. (SD)	107m	-1	6.7	5.3	-	
4829	Bray Technologies	85	0	5.9	7.4	7.1	
	Bryant Group Prf.	85	-2	11.0	13.3	-	
1178	Cairn Group Security	125	0	14.7	4.7	3.8	
2,500	CCL Group 11% Conv. Prf.	165	-1	14.7	2.1	-	
1670	Carlin Plc (SD)	210m	0	7.6	2.6	12.4	
770	Carlo 7.5% Prf (SD)	110	0	10.3	9.4	-	
	Magnet Sp New Voldex & Caro	0.125	0				
7285	Mic Group	91	-1	8.0	8.8	5.2	
22,000	Midland Group (SD)	100	-2	3.6	3.3	12.6	
18948	Midland N.V. (AmSD)	245	0				
1421	Robert Jenkins	140	0	18.5	7.1	5.1	
17201	Scribstone	360	-1	18.7	4.0	9.6	
4425	Unilever Europe Conv. Prf.	155	-5	22.0	8.1	7.2	
5027	Veterinary Drug Co. Plc	270	-22	16.2	5.3	25.6	
	W.S. Yeates	307	+22				

Securities designated (SD) and (MSD) are dealt in subject to the rules and regulations of the ISE. Other securities mentioned are dealt in subject to the rules of TSA. These descriptions dealt in directly on a restricted basis. No independent Companies Exchange Limited nor Granville Davies Limited makes money in these securities.

* These securities are dealt on a restricted basis. Further details available.

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COMBAT STRESS

"Perhaps the bravest man I ever knew..."

and now, he cannot bear to turn a corner



Sgt. John Sergeant "Ivy" Clegg, DCM, was perhaps the bravest man his Colonel ever knew. But now, after seeing service in Aden, after being badly wounded and ambushed in Northern Ireland, Sergeant Clegg cannot bear to turn a corner. For fear of what is on the other side.

It is the bravest men and women from the Services who need most from medical breakdown. For they have tried, each one of them, to give more, much more, than they could in the service of our Country.

We look after these brave men and women. We help them at home, and in hospital. We run our own hospitals for them, out of their days in peace.

These men and women have given their minds to their Country. If we are to help them, we must have funds. Please help us by giving a donation, and a legacy too, perhaps. The debt is owed by all of us.

"They've given more than they could... Please give as much as you can."

To protect these men and women, we are members of several local Branches of Pioneers to our men.



EX-SERVICES MENTAL WELFARE SOCIETY	
BROADWAY HOUSE, THE BROADWAY, WILLETON, SURREY GU16 5UJ. TEL: 081-443 6333	
<input type="checkbox"/> Please post enclosed my donation to EX-SERVICES MENTAL WELFARE SOCIETY	Enclosed
or charge my Access/Visa card No. _____ Expiry date of card _____	
<input type="checkbox"/> Please send me further details about the Ex-Services Mental Welfare Society	
Name (BLOCK LETTERS)	
Address _____	
Signature _____	

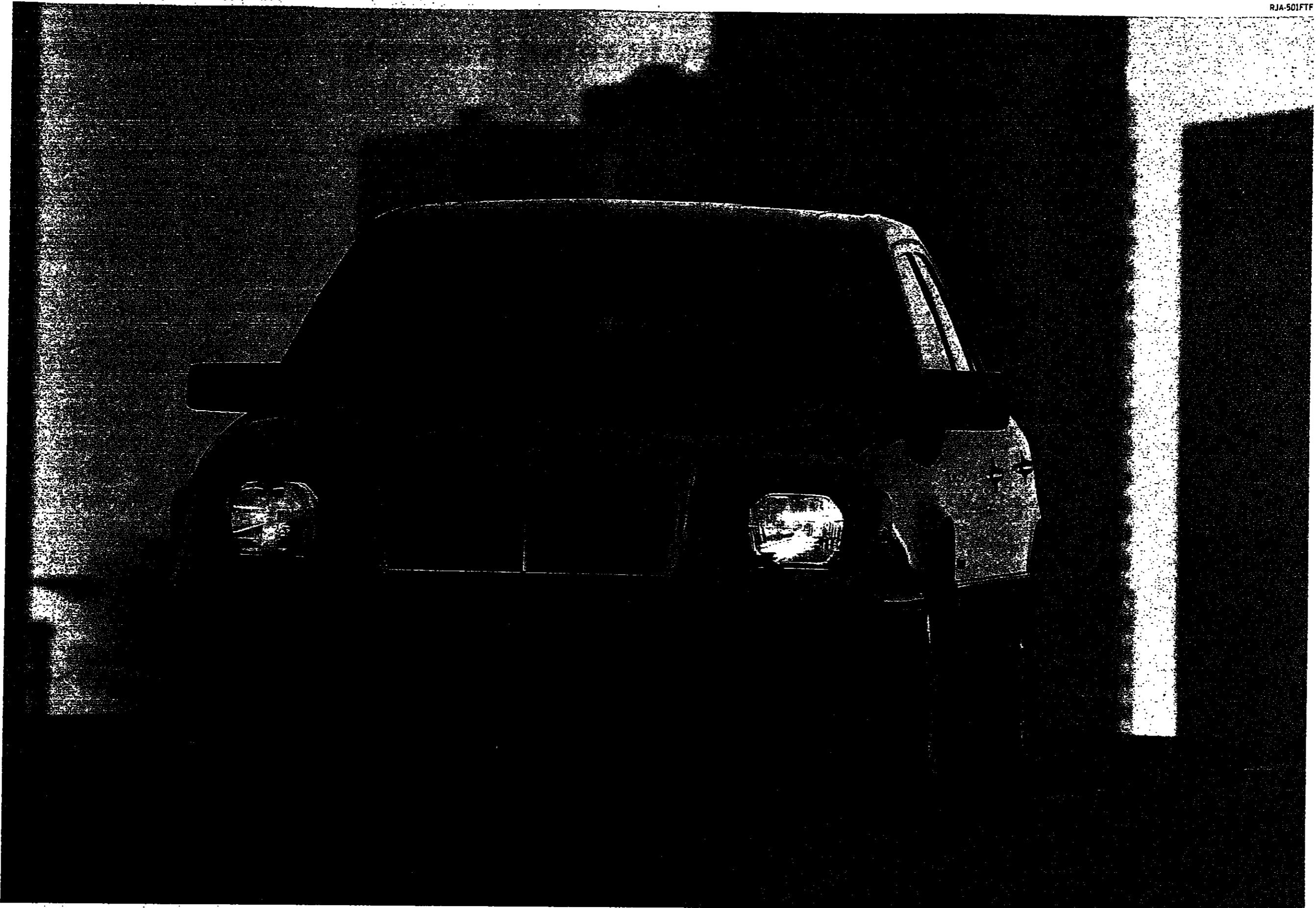
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300E-24 acceleration: 0-62 mph in 7.5 seconds (manufacturer's figures)

VILLE
When you're on the road before dawn, and your 8.30 meeting is more miles from the warmth of your fondly remembered bed than you care to think about, the last thing you need is a car that makes demands on you.

More likely, you crave peace in which to gather your thoughts and the generous reserve of mile-shrinking power you'll find in the Mercedes-Benz 300E-24.

FIRST, THE POWER

Few recent developments in the executive car class allow you to bite more hungrily into large inter-city mileages than the 300E-24's 3.0-litre, 231bhp, multi-valve, six-cylinder engine. A particularly important refinement of this four-valve-per-cylinder masterpiece is its variable valve timing, an automatic adjustment that allows the engine to deliver maximum torque over a very wide rev range.

A dramatically sporting powerplant - should you wish to explore it - but it's just as great an ally when you're more interested in arriving than enjoying the drive.

But there's more. Now the eager press-on driver can have the sinews of his 300E-24 - or other cars in the series - further stiffened by the

The Mercedes-Benz 300E-24. More speed, less haste.

firmer Sportline handling and interior packages. Sportline uses uprated springs and 20% firmer shock absorbers; there's increased feel to the more direct steering, and the wheels and tyres are wider. The seats are designed to give greater lateral support.

THEN, THE PEACE

Even at speed, wind noise generated by the 300E-24 is spectacularly low, but the peace of mind that's the special prerogative of Mercedes-Benz drivers, is also a tribute to less obvious virtues.

Such as controls and instruments that are so simply yet effectively designed and located that their efficient use becomes second nature. And when you step out of the 300E-24 after several hours, with no suspicion of stiffness, you'll know you've been carefully protected from fatigue by a seat that's as sympathetic to the human frame as Mercedes-Benz can make it.

So, if you've chosen the 300E-24 simply because you need to save time, Mercedes-Benz will be right there with you. But if you've also decided to fit Sportline suspension and seating, you'll forgive them if they suspect that merely shortening the journey is not always your first priority.



**ENGINEERED LIKE NO OTHER CAR
IN THE WORLD**

UK NEWS

Recovery in retail trade may be short lived

By Peter Norman, Economics Correspondent

The Christmas and new year recovery in Britain's retail trade may prove to be short lived, according to the latest survey of distributive trades by the Confederation of British Industry, the employers' organisation, and the Financial Times.

The survey, which polled more than 500 firms in the retail, wholesale and motor trades in the four weeks to April 5, found that retailers' sales continued to grow compared with March last year, but at a slower rate than previously and below expectations.

The survey's findings are likely to be welcomed by the Government, which sees a slowdown in consumer demand as an essential part of its counter-inflation strategy.

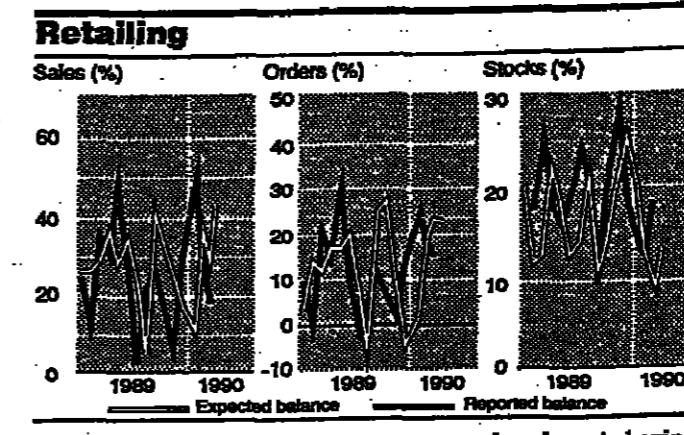
According to Mr Nigel Whittaker, chairman of the CBI's distributive trade panel, the

survey also failed to show an expected run-down in stocks last month. "This suggests that any recovery in retail trade since the end of last year may be starting to run out of steam," he said.

Further evidence of trends in retail spending will come tomorrow with publication of the Government's provisional figures for retail sales in March.

Last week, expectations among City analysts polled by MMS International, the financial information company, ranged from a fall of 1.4 per cent to a rise of 0.2 per cent in sales volumes over the month.

The median forecast was for a 0.9 per cent drop in March sales volumes after February's 2.2 per cent rise, indicating that the City still expected a modest increase in sales compared with March last year.



Not all Britain's retailers are suffering from the Government's high interest rate policy.

The latest CBI/FT survey reinforces the view emerging from financial reports that the

consumer slow down is having a differentiated effect on the retail trade. According to Mr Whittaker, "sales of essential, non-discretionary items continue to hold up well."

Last week, Tesco, the super-

market chain, reported a strong 31 per cent jump in profits last year while Next, the fashion retailer, moved from profit to substantial loss.

Today's survey reports that chemists, grocers and shops selling confectionery, tobacco and newspapers reported the best annual sales increases for March.

Booksellers, stationers and retailers of household textiles, furniture and carpets reported sales below March 1989 volume.

The survey showed a similar pattern among wholesalers. Food and drink wholesalers reported the best sales increases, while builders' merchants, agricultural machinery dealers, industrial material wholesalers and wholesalers of office equipment said sales were lower than in March last year.

Teachers Union to decide on UK boycott

By Norma Cohen, Education Correspondent

LEADERS of the National Union of Teachers, Britain's biggest teaching union, will today try to head off a teachers' boycott of the testing arrangements under the national curriculum, the new course work for secondary education.

The union's annual conference, meeting in Bournemouth, will vote on a demand from left-wing delegates for the NUT to examine how a boycott of testing could be organised.

An alternative suggestion for a campaign to modify the national curriculum, proposed by the NUT's leadership, was narrowly defeated yesterday.

All sections of the union yesterday criticised the mandatory testing arrangements under the national curriculum as unwieldy and unworkable.

The union's onslaught on the national curriculum came after the Prime Minister voiced significant concern about it at the weekend. Mrs Thatcher said she was surprised at the amount of detail in the history element of the curriculum and expressed concern that it placed too much of a burden on teachers.

She suggested that detailed tests were appropriate only for the three core subjects of English, mathematics and science.

Mrs Thatcher's remarks were the second significant Government retreat from its own Education Reform Act in a week. Mr John MacGregor, Education Secretary, announced last week that testing for seven-year-olds in non-core subjects would be abandoned.

Mr Doug McAvoy, NUT general secretary, seized upon Mrs Thatcher's remarks, which he described as "astounding," to call on teachers to step up efforts to modify the national curriculum.

Union calls for block vote to be diluted

By John Gapper, Labour Editor

THE union block vote at the Opposition Labour Party's annual conference should be gradually diluted to less than 50 per cent of the conference voting strength following the next election, the GMB general secretary has recommended.

The GMB, which has 864,000 members and is the second largest British union, has suggested the plan as an alternative to its proposal last year that unions should form one of two "voting houses" at the party conference.

The union proposed at last year's conference that there should be a review of the policy-making process following disquiet at the block vote and other aspects of Labour's policy-making process.

In its response to the review, the union suggests that constituency labour parties and affiliated bodies - the bulk of which are unions - should eventually have an equal say in policy making but the change should be gradual.

The GMB's response says

Labour's national executive

should propose to this year's conference that the constituency party share of the vote

should be increased to 30 per cent under rule changes that would take effect in 1992.

The response reiterates GMB

support for policy to be formed

by a system of policy commissions

which would examine

two or three aspects of Labour

policy each year. Their suggestions would form the basis of conference debates.

It suggests that 50 per cent of the votes could be allocated to constituency parties and 50 per cent to affiliated organisations. At the moment, unions wield about 88 per cent of the voting strength at conference.

The union's original suggestion was for constituency parties and affiliated organisations to form separate "voting houses" at the conference giving each a veto on policy. However, this has been rejected by other unions as impractical.

The GMB's response says

Labour's national executive

should propose to this year's conference that the constituency party share of the vote

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Notice of Redemption

TO THE HOLDERS OF

Northwest Natural Gas Finance N.V.

15% Guaranteed Notes Due May 15, 1992
CUSIP No. 667658 AAG

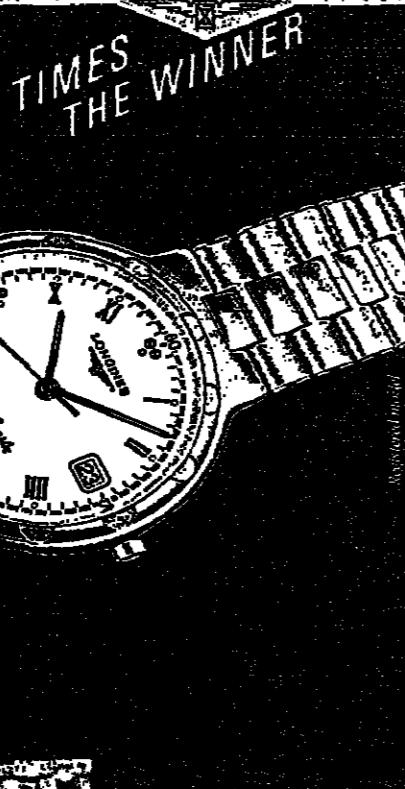
NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of May 15, 1982 of NORTHWEST NATURAL GAS FINANCE N.V. and NORTHWEST NATURAL GAS COMPANY, as Guarantor, to CHEMICAL BANK, as Trustee ("Indenture"), Northwest Natural Gas Finance N.V. will redeem on May 15, 1990, all \$40,000,000 in principal amount of its 15% Guaranteed Notes Due May 15, 1992 ("Notes"), outstanding under the Indenture at 100.75% of the principal amount thereof, plus accrued and unpaid interest to the date fixed for redemption ("Redemption Price"). The Notes are listed on the BOURSE DE LUXEMBOURG. The Notes shall become due and payable on the date fixed for redemption, and on and after such date, interest thereon shall cease to accrue. Payment of the Notes will be made in U.S. Dollars upon presentation and surrender thereof, together with all Coupons appurtenant thereto maturing on or after May 15, 1990, at the offices of the Paying Agents as follows: Chemical Bank, Corporate Trust Department, 55 Water Street, New York, NY 10041, or at the main offices of Chemical Bank in Frankfurt/Main, London, Paris or Zurich; at the main office of Algemene Bank Nederland N.V. in Amsterdam; at the main office of Kredietbank S.A. Luxembourg in Luxembourg; or at the main office of Kredietbank S.A. Brussels in Brussels. If payment is to be made to the registered holder(s), return the Note(s) unsigned. In case payment is to be made to other than the registered holder(s), the Note(s) must be accompanied by properly executed instruments of assignment and transfer.

If any Note surrendered for redemption is not accompanied by all appurtenant Coupons maturing on or after May 15, 1990, the Redemption Price will be reduced by the face amount of such missing Coupons unless Northwest Natural Gas Finance N.V., Northwest Natural Gas Company and Chemical Bank each receives a security or indemnity as they may require.

Dated: April 3, 1990

Under United States Federal Income tax law, paying agents may be required to withhold 20% of payments made within the United States to holders presenting their Notes for redemption if such holders have failed to furnish a correct taxpayer identification number (social security or employer identification number) to the Paying Agent.

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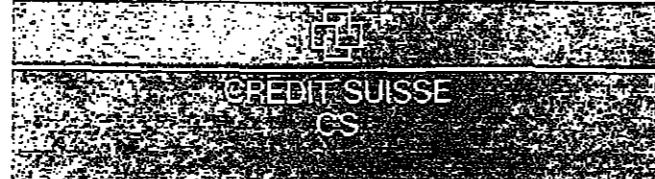
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Mask of Tutankhamen, Cairo

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DIARY DATES

Trade fairs and exhibitions: UK

Current
International Boat Show (0732 60058) (until April 20)
Eristol April 19-21
Money Show (0224 210123) Aberdeen April 22-23
British Pet Industry Exhibition (0233 621877)
NEC, Birmingham April 22-23
Visual & Audio International Exhibition (01-660 6006) Earls Court April 24-26
British Electronics Week (0793 26699) Olympia April 24-27

Overseas exhibitions

April 17-20 International Gifts and Houseware Fair (01-628 1661) Hong Kong April 18-21 International Leather Processing and Machinery Exhibition - KÖRLEATHER (01-236 2329) CHINA (01-940 3777) Beijing April 23-26 Data Processing, Office Equipment, Telematics, Communications and Software Exhibition - SICOB (01-997 3474) Paris April 24-26 International Clothing Textiles

Business and management conferences

April 18-20 BIS CAP International: European ink jet printing conference (Amsterdam 31-32-33-35) Amsterdam Queen Elizabeth II Conference Centre, London

April 19 National Economic Development Office: Go public! a conference for European Community buyers and suppliers to discuss the opening up of the public sector market place in the 1990s (01-217 4056) Queen Elizabeth II Conference Centre, London

April 19 Tolley Conferences: What every pension fund trustee should know (01-691 5682) London Press Centre

April 19 The Institute of Economic Affairs: Wider ownership - the next steps (01-799 3745) Queen Elizabeth II Conference Centre, London

April 21-27 Montreux Symposium for Direct Marketing Communication (Switzerland 41-1391-30-00) Montreal

April 23-24 Financial Times Conferences: Industry and the Environment (01-225 2222) Hotel Inter-Continental, London

April 24 Adam Smith Institute/European Express Organisation:

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published.

FINANCIAL

YESTERDAY
DIVIDEND & INTEREST PAY-
MENTS
Chrysler Corp. 3cts.
Penske OH 6cts.
Smithkline Beecham/SmithKline
Beckman Equity Units
34.35cts.
Swanson (City of) 12½% Rd. 2006
6½pc.
Treasury 2½% LL. 2020 St.1.7446
TODAY
COMPANY MEETINGS-
Commercial Union Assurance,
Baltic Exchange, St. Mary
Ave., E.C. 11.30
London Secretary Show (01-665
4665) Olympia
May 1-3
International Fast Food Show
(01-240 2244) Wembley Conference Centre
May 2-4
London Secretary Show (01-665
4665) Olympia
May 2-13
International Philatelic Exhibi-
tion - STAMPWORLD LON-
DON (01-651 5040) Alexandra Palace, London

May 1-4
International Leather Processing
and Machinery Exhibition -
KÖRLEATHER (01-236 2329) Seoul
May 2-6
Hanover Fair - INDUSTRY
(01-588 9541) Hanover
May 4-6
International Woodworking
Machinery Trade Fair -
DREMA (0223 22362) Poznan
April 24-26
International Clothing Textiles

PARLIAMENTARY

Tomorrow
April 25-26 Acquisitions Monthly: How to buy a company (0982 515454) London Press Centre
April 30 The Energy Business Centre: The defence and offshore oil and gas industries - opportunities for business and technological co-operation (0484 412) Royal Overseas League, London

May 3 CBI Conferences: The Visual Connection (01-379 7400) Centre Point, London

May 8 CBI Conferences: The National Health Service (01-379 7400)

May 21 Tolley Conferences: The Law and Practice of Bids and Mergers (01-630 5682) London

May 22-27 ESOMAR: Countdown to 1992: Which issues at stake? Which strategies in the Single Market? Which needs in research and consultancy? (Amsterdam +31-20-654-241) Brussels

May 28-29 Financial Times Conferences: Industry and the Environment (01-225 2222) Hotel Inter-Continental, London

May 29 Morgan Guaranty Trust Company of New York

May 30 Morgan Guaranty Trust Company of New York

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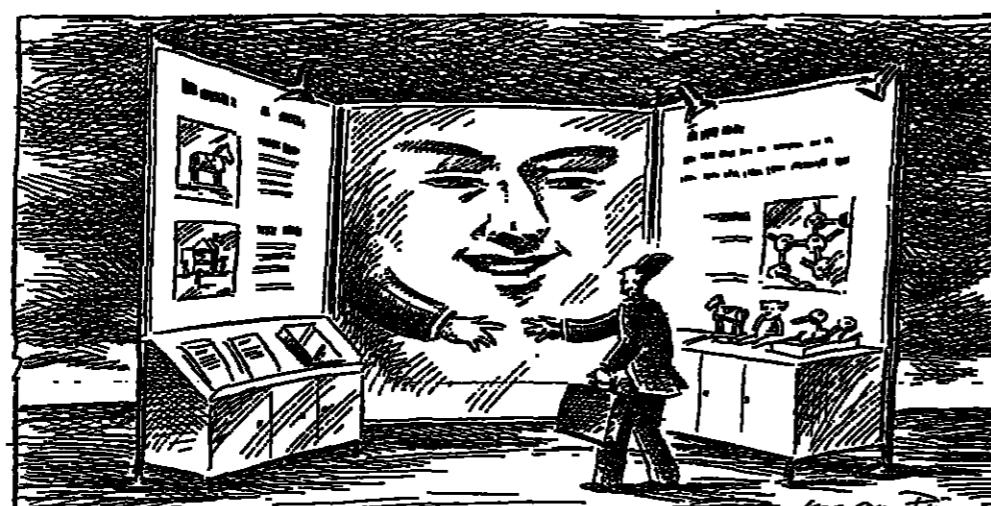
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MANAGEMENT: The Growing Business

Exhibitions

Hard work — before, during and after

Charles Batchelor gives advice on taking a stand



For Suffolk Playworks, a small manufacturer of educational toys, the Nuremberg Toy Fair appeared an ideal showcase for displaying its wares to international buyers. In February, Playworks and four other small British toy-makers exhibited in Nuremberg on a joint stand arranged for them by the Rural Development Commission.

Michael Farrell, Playworks' founder, had exhibited at British fairs but Nuremberg was his first time at a major international event. On the face of it the experience was a disappointment because the company, which has five employees and turnover of just £100,000, took no orders.

What the fair did do for Farrell was to expose his products to a critical new market place and to teach him some important lessons about selling to overseas buyers. "I was encouraged by the level of interest and confirmed in my view that our product was right; that the quality was right and that price was the most important consideration," he says.

Where Farrell did go wrong, however, was in producing an ex-works price list on the assumption that his customers would be able to work out the cost of packing and shipping.

"All the enquiries we had wanted to know the price to their door and the size of discount for bulk," he says.

In the weeks that have followed the Nuremberg fair Playworks has gone down to the hard work of converting the interest shown by buyers into firm orders. It has also supplied the main West German mail order catalogue specialising in educational toys and contacted prospective buyers who left their visiting cards at its stand.

It is unusual for a company as small as Playworks to travel to an overseas exhibition. But after a long period during which Britain lagged behind many continental European countries, UK companies of all sizes are now showing far greater enthusiasm for exhibitions both at home and abroad.

British companies spent £45m on trade, consumer and technical exhibitions in 1988, an increase of 50 per cent on the year before, according to the most recent survey by the Incorporated Society of British Advertisers. British businesses rented a total of 83,000 stands at 850 UK exhibitions.

This upsurge in interest in exhibitions has prompted some people in the industry to ques-

tion whether some sectors of the market are becoming saturated. Ken Harrison, of Macy's, the US retailer, comments that "many of the exhibitors they meet at the International Spring Fair in Birmingham do show up at the Harrogate Gift Fair". They are more likely to see new faces at some of the smaller, regional fairs.

But whether or not there is a glut of exhibitions, the smaller business, which may be attending trade shows for the first time, needs to approach the subject with care. "Taking a stand at an exhibition is expensive and time-consuming and needs to be organised well in advance," says Yvonne Eskend of the London Enterprise Agency.

The first step for the business which is new to exhibiting is to decide why it needs to exhibit in the first place. "Flying the company flag" should not be the sole justification for taking exhibition space since this objective can be achieved more economically by other means, warns James Dudley, a management consultant.

In some businesses, particularly in the consumer sector where products have a very short sales cycle, exhibitions fit into its marketing strategy. It must choose the most suitable event. A choice

must be made between consumer or trade shows depending on whether he or she sells directly to the public or to other manufacturers or whole-salers.

How can the novice exhibitor tell whether the exhibition organiser is professional? "It needs research," suggests Brian Morda of the organiser of a trade show in the UK. "Some buyers come to the stand do not help but have many regulars who just ask for an order and fill it in," she explains.

Not all industries work like this; for many exhibitors a trade show is only the first step towards making a sale but exhibitions still act as a powerful magnet for suppliers, customers and potential customers. "You can meet a lot more clients in a shorter space of time than by any other method," notes Brian Morda of Crescent Associates, an exhibitions consultant.

As Suffolk Playworks found, exhibitions can also be an extremely efficient means of carrying out market research.

Cornish Fairies, a manufacturer of soft toys which also attended the Nuremberg Toy Fair, found that the faces on its dolls did not appeal to continental buyers. In future its dolls will have screen-printed faces and will no longer have the "glass" eyes currently used.

Once the would-be exhibitor has decided just where exhibitions fit into its marketing strategy he must choose the most suitable event. A choice

must be made between consumer or trade shows depending on whether he or she sells directly to the public or to other manufacturers or whole-salers.

Your sales staff might appear the obvious people to man your stand but exhibition selling can involve a "softer" technique, says Peter Cottrell, an exhibitions specialist.

As Michael Farrell found in Nuremberg the exhibitor must have enough information on his products, prices, discounts and shipping for the buyer to be able to make an instant decision on whether to purchase. "I need to know enough to be able to write an order," says Ken Harrison.

Once the show is over the exhibitor must devote time to following up the leads which have been generated and converting these into firm sales.

The success of the exhibition will depend as much on the work the exhibitor does after the stands have been dismantled as on what goes on at the show itself.

Useful reading: How to Exhibit Successfully, 15 pages, £5 from London Enterprise Agency, 4 Snow Hill, London EC1A 2ES; How to Make Exhibitions Work for Your Business, John Tulloch, 128 pages, £7.95; Kogan Page, 120 Pentonville Road, London N1 9JN; SAVIN, Professional Exhibiting, James Dudley, 234 pages, £22.50, Kogan Page.

organisers. They must contact their own customers and suppliers and invite them to attend their stand. Suffolk Playworks contacted in advance more than 100 continental suppliers of nursery equipment and invited them to visit its Nuremberg stand.

The design of the stand is important if potential buyers are to be persuaded to stop by. Although employing a professional exhibition designer may cost several thousand pounds, simply putting up a few posters is no substitute, says Paul Thompson, managing director of Read Exhibition Companies, a large exhibitions organiser.

The position of your stand at an exhibition may be important though opinions among the experts differ. Some buyers say they make it their duty to visit all corners of a large exhibition hall but others stress that exhibitors must choose their position carefully.

A small ceramics designer should make sure he or she is in the craft section of a large exhibition and not competing for attention with the likes of Doulton and Wedgwood, says Ken Harrison.

The staff who man your stand must also be chosen with care. A company making a technically-complex product must make sure it has people who can answer detailed questions.

Your sales staff might appear the obvious people to man your stand but exhibition selling can involve a "softer" technique, says Peter Cottrell, an exhibitions specialist.

As Michael Farrell found in Nuremberg the exhibitor must have enough information on his products, prices, discounts and shipping for the buyer to be able to make an instant decision on whether to purchase. "I need to know enough to be able to write an order," says Ken Harrison.

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Mom and Pop know best . . .

Charles Batchelor reports on prospects for family-run firms

The 1990s may prove to be a decade when family-owned companies, with their qualities of continuity and commitment, will have an edge over the large corporations in winning customers and in exploiting product niches.

There is already a new respect in the business world, for corporate culture, values and tradition, all of which are important qualities of the family business, writes Peter Davis, director of the family business studies division of the Wharton School, University of Pennsylvania.

Some family firms do still cling to their quirky, anachronistic ways and are slow to innovate but a new generation of leaders is emerging which is keen to see the business grow and open up to outside ideas, he claims.

Many successful companies in the US, such as Wal-Mart, Johnson's Wax, Mars Incorporated, the Marriott Corporation

and the New York Times Company, remain family-operated or controlled, Davis notes. One recent study showed that family-controlled enterprises outperformed the overall market, as measured by the Standard & Poor's 500, by a wide margin over the past 20 years.

Despite these successes, problems at Wang Laboratories, and the enforced resignation last summer of Frederick Wang, son of the founder An Wang, only a few years after he had been installed as president by his father, prompted renewed criticism of family firms and claims that big business could not be trusted to families.

The hazards of running a family business must be taken seriously, Davis acknowledges. Family and business do not always mix and some companies — General Motors and DuPont — do allow beyond the power of families to control the business.

But during this century the

separation of ownership from professional management and the rise of large corporate bureaucracies with unresponsive leaders has also created problems. The waves of mergers, takeovers and leveraged buy-outs are all signs that US business has strayed too far from its roots, says Davis.

Family-owned companies in the 1980s and 1990s have benefited from a growth in interest in the family business and at least 50 US universities now offer courses on family enterprise, he notes.

"In the February 1990 issue of Family Business, 58 Mahatma Street, Great Barrington, 01230, Mass.

Peter Davis will introduce three one-day seminars on the theme of Your Family Business in the 1990s and beyond in Birmingham (April 20), Manchester (May 3) and London (May 3). Contact Stay Hayward Conference Services, tel 01-607 5322. Fee £250 + VAT.

Investment spending drops

Investment spending by small companies has fallen back sharply from its peak in the first half of 1988 under the impact of high interest rates, according to a new Small Business Investment Index created by National Westminster Bank.

Spending fell in the first half of 1988 to just 57 per cent of the level reached in the first half of 1988 but recovered to 72 per cent of that figure in the second half of last year, apparently as a result of an increase in acquisitions of other businesses and the purchase of premises.

Taking the four main categories of small business spending the index showed a decline in working capital spending in the second half of 1988 to 84

per cent from the level of early 1988. Equipment purchases fell to 75 per cent; business purchases to 65 per cent; and property to 57 per cent.

A comparison of the spending patterns in the regions of England and Wales showed that the sharpest drop had occurred in the south-east.

Investment fell to 51 per cent of the level reached in the first half of 1988 but recovered to 62 per cent of that figure in the second half of last year, apparently as a result of an increase in acquisitions of other businesses and the purchase of premises.

Spending in the south-west fell to 90 per cent; in the Midlands and Wales to 86 per cent; and in the north to 85 per cent.

The significant increase in

interest rates experienced during the last 18 months has clearly had an adverse effect on the viability of expansion programmes," says David Powell, NatWest's head of small business services.

NatWest bases its index on the volume of new lending made under its business development loan scheme, which is the principal means by which its 1m small business customers finance their capital investment requirements.

About £2.7bn is currently being lent to just over 200,000 customers. The data has been adjusted to compensate for changes in the retail price index and for the bank's market share.

CB

In brief...

BRIEFING: A two-day conference on Structuring and Financing Acquisitions in Britain and Europe will be held in London on April 23 and 24. Subjects covered will include finding and pricing suitable companies, dos and don'ts in making offers and financing cross-border acquisitions.

FINANCE: Finance 98, an exhibition and conference for growing businesses, will be held in London on May 15-17 at London's Olympia. The event is intended to bring

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A contract has also been won to supply about 300 tonnes of structural and composite steelwork for an office block in central London, with erection scheduled for mid-May.

Stansells (Builders) has awarded a design and build order for structural steelwork, roofing and cladding worth £1.3m for a distribution warehousing project in Somerset with a total floor area of 180,000 sq ft.

Contracts worth more than £1.7m have been won in the North East of England. They include an order to design and erect 700 tonnes of structural steelwork for Fujitsu's new utilities complex in Durham and supplying 870 tonnes of steelwork for offices at Newcastle Business Park.

R Mansell wins £46m orders

Order books at R. MANSELL have risen by £26m since the start of the year. The largest contract is the £7m project awarded by Commercial Properties for the construction of a six-storey office development at Glitsup Street in London.

The second largest is a £5m contract from the London Borough of Croydon to convert a high school into a 600 place centre for the John Ruskin Sixth Form College.

Other contracts include a £2.2m fit out for Lloyds Bank's newly-acquired Eastcheap offices in the City and a £2.2m refurbishment of United Friendly Insurance's headquarters.

Expansion of local authority's offices

A £4.5m contract to alter and extend Castle Point District Council's office complex at Benfleet, Essex has been won by BEAZER CONSTRUCTION EAST ANGLIA, a subsidiary

company of Beazer Regional Construction. Work includes demolition of part of the premises, construction of a two-storey extension to the offices with a partial basement area

and alterations and refurbishment of the remaining offices including a new roof structure and fenestration. The project is due to be completed by November 1991.



JOHN LEWIS (MANAGEMENT) has won a £3m contract to carry out a refurbishment of the Richmond Theatre (pictured), a Grade II listed building designed by the Victorian theatre architect Frank Matcham. The auditorium will be carefully cleaned and restored with improvements to seating arrangements and access points. Reconstruction of an annexe will create additional administrative and bar space. Backstage facilities will be upgraded and the stage enlarged.

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*BMRC 1988 Businessman Survey †BMRC 1988 Businessman Survey, Jan-Dec 88. §Private Investors Survey, 1987. All advertisements are subject to acceptance and suitable references where required.

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ARTS

A Letter from New York

Theft, censorship and untimely deaths

Paula Deitz looks back on an American art world season marked by a lack of tranquility

This has not been a tranquil season in the American art world. First, in what is being called the biggest art heist of the century, the Isabella Stewart Gardner Museum of Boston lost 12 irreplaceable works of art, valued from £62.5m to £125m, to thieves masquerading as policemen.

No value can ever be placed on Vermeer's *The Concert* which first hung in Mrs Gardner's Beacon Street drawing room from 1892 until she transferred it to a corner of her Venetian palazzo-style museum in 1903. The only Vermeer in New England, it was a veritable magnet to almost a century of Boston artists and art lovers.

Secondly, for the first time, the issue of censorship and Federal grants is being raised by the National Endowment for the Arts in connection with a travelling retrospective exhibition funded by the late Robert Mapplethorpe's photographs, which contain sexually explicit images.

Finally, and most serious, the art community is facing an unnatural void created by the untimely deaths of bright, young vivacious artists at the peak of their careers, most recently Jean-Michel Basquiat, Keith Haring and Scott Burton. One cannot help but face the spring season in a more contemplative mode, and yet there are always exhibitions that suit simply because they proclaim the quiet strengths of long traditions.

Not since John Gere organised two exhibitions in the 1960s of the master drawings of Taddeo and Federico Zuccaro have these late 16th-century Mannerist works of the two brothers been seen in such a full display as is currently on view at the National Academy of Design (until April 29).

Earlier this year, the set of 19 drawings by Federico that chronicle the trials and tribulations and eventual triumphs of the elder brother Taddeo, who died at 37, were exhibited here at Sotheby's and sold at auction for \$1,524,000. Affectionate as his memorial appears the brothers had their differences, and the 100 drawings in the exhibition *Renaissance into*



Jean-Baptiste Greuze's Aegina Visited by Jupiter

Baroque: Italian Master Drawings by the Zuccari, 1550-1600 trace their individual development and points of collaboration in a smooth arrangement that illuminates fine and important details.

Organised by E. James Mundy, chief curator of the Milwaukee Art Museum, and entirely from North American collections, the drawings look at home on the panelled walls of this Fifth Avenue mansion, not very different in spirit from the palazzi in Rome where the brothers worked on facade frescoes and interior decorations. Compared to the finished works, reproduced in the catalogue, from places like the Mattei Chapel or the Villa Farnese, Caprarola, the drawings seem fuller, filled with real space and the energy of potential movement as ideas in process that have miraculously survived though the painted images may be long gone.

Like Michelangelo, Taddeo, who worked only in Rome, drew with a sense of sculptured form and with a strong continuous line, as Mr Mundy points out, that makes the figures, often set in a frieze of formation, appear like sculpted Rome in the throes of the Counter Reformation moved into the Baroque Age.

Drawings are also compared to paintings in an exhibition of 35 works called *Jean-Baptiste Greuze: French Painting in the Mid-18th Century* from the Metropolitan Museum of Art's permanent collection, which continues to May 6. There is so much to learn from understanding a few examples and why a museum has collected those specific ones. Here also is an issue of the museum's quarterly bulletin on Greuze, written by James Thompson, further illuminates the selection, quoting liberally from Diderot and the Goncourt brothers, Greuze's contemporary critics.

Like Rousseau, Greuze strove for the natural as opposed to Chardin who paid attention to the voluptuous only in still lifes of food. Though Greuze travelled to Italy and lived in Paris, his sensibilities were never far from the small town of his birth near Lyon and the moral domestic scenes that frequently symbolised lost chastity, like *The Broken Eggs* where the eggs tell the whole story.

Greuze was a passionate man with an angry wife, and the women he painted were in various stages of undress with folds of layered material as sensuous as the skin. When he finally did paint a complete female nude, *Aegina Visited by Jupiter*, she appears more chaste than any of the kitchen maids.

Though hard to imagine, it was only some 20 years ago that collectors found in photographs a gold mine of images satisfying as paintings for their walls. The Museum of Modern Art, whose Department of Photography pioneered this new interest, even sold excess photographs from their own collection. Since then, hardly a year has gone by without an exhibition at MoMA that formulated a new way to look at photographs either through a group show or through the lens of a single photographer.

And this anniversary year - 150 years of photography - is no exception. "Photography Until Now" (until May 29), organised by John Szarkowski, is a history of photography with a difference. He follows what he terms the "dynamic interaction" between technology and art.

logical advances and creative genius tempered by social attitudes.

One way to view the exhibition is to observe how differently photographers have used any technique. The photographers range from the austerity of David Octavio Hill and Robert Adamson's *East Cobb of the Cathedral and St Rule's Tower, St Andrew's, Scotland* (c. 1844) to a more socially oriented 1930s photograph of a factory in Essen, and finally to Hill and Bernhard Becher's water towers and pure sculpture in 1920.

No photographs can excel the poetry of how three American photographers - Alfred Stieglitz, Edward Steichen and Alvin Langdon Coburn viewed New York City's Flatiron Building at dusk in the early 1900s.

One exhibit that has been attracting crowds on these unseasonably warm days is *The Gardens of Fletcher Steele* at the PaineWebber Art Gallery in the lobby of an office building. Currently this is a popular kind of exhibition, recreating with drawings, photographs and actual garden structures, the entire career of those landscape architects working in what is now known as the Country Place Era in America between 1880 and 1930. Steele himself was a transitional figure bridging 19th-century Beaux Arts and modern design in gardens.

He created what he called dreamscapes for his wealthy clients and left behind axial principles for a more romantic idealisation of nature, according to Robin Karson who has written the definitive book on his work, *Fletcher Steele, Landscape Architect* (Abrams/Saga Press).

The image that people flock to see is at Naumkeag, an estate in Stockbridge, Mass: his 1938 *Blue Steps*, a steep series of horseshoe stairs, with curving hand rails of white pipe, set in a grove of birch trees. Closed for a week, this exhibition will reopen on May 8 at the Glyndebourne Gallery at Wave Hill, the only intact New York estate remaining in New York City, where the gardens overlooking the Hudson River will also be in bloom.

Obituary

Greta Garbo

The death of Greta Garbo ends a film career unlike any other. On the Jacob's ladder of cinema, on which those man-made angels called stars ascend and descend, Garbo seemed to travel in one direction only: upwards. Her career never took a downward turn, at least until the minor setback of her last movie *Two-faced Woman*. Nor did her life. Unlike many superstars, undone by drink or drugs, or made mortal by multiple marriages, Garbo left movies in an untarnished myth, to retire into her own private aether aloof, apart and famously "alone".

It seems impertinent to remind ourselves that she was born to a peasant labourer in Sweden, in 1905, and that early photographs of Greta Gustafsson (Garbo was invented later) show her as a buxom beauty who could not be out of place throwing a beach-ball in a travel trailer. Even her early Swedish and European roles (in Mauritz Stiller's *The Story of Gosta Berling* or G.W. Pabst's *Joyless Street*), though hinting at the tragic heroines to come, could not disguise that this was a big girl who could also seem awkward and mannish.

But once in Hollywood, the movie industry went to work that merciless machine for reshaping personalities to suit box-office demand.

Brought over to America in 1929, in company with her director-mentor Stiller, Garbo served a brief statutory apprenticeship of hanging around waiting for films. And then she began to slip into star roles: playing temptresses or tragic lovers in movies like *Flesh And The Devil* or *Love* (her first go at Tolstoy's Anna Karenina).

But the true Garbo was born with the sound era. While dozens of silent stars fell around her, cut down by the deadly scythe of vocal exposure (including her co-star and rumoured lover John Gilbert), Garbo's sound career was made with her first speaking line: "Gimme a kiss," said the low, mellifluous croak in *Annie Christie*: "and don't be sung, baby."

Soon the same voice - that contralto that could be imperiously brusque one moment and husky with romantic longing the next - purled forth in



Greta Garbo

Mata Hari and *Grand Hotel*: intoned the agonies of love in *Queen Christina* and *Anna Karenina*; coughed its heart out, and broke its audience's, in *Camille*; and even lent itself to improbable hilarity, *Garbo laughs* in *Ninotchka*.

The more the Garbo magic marched on through the 1930s, the less she seemed to resemble any other star. Even Dietrich, when not shimmering like a ice-goddess for Von Sternberg, was happy to slum it by lending her sex appeal to Westerns or potboiling thrillers.

But Garbo, it became apparent, was above sex appeal. She turned the potential disadvantage of an tall, angular body into an advantage. She became a goddess bowing down to mankind as if out of the frame of a pre-Raphaelite painting. Her face - even in the tragic extremes of a death scene or a lover's renunciation - could take on a wry, mocking sadness as if to say, "What fools these mortals be."

In 1941 she retired from mortality altogether: at least from the kind of mortality operating in Hollywood.

For the last 50 years of her life, with astonishing single-minded self-abnegation (even Dietrich came back for a late, near-fatal old-age cameo in *Just a Gigolo*), she refused all movie offers. But the Garbo myth fed on unattainability. The lady was not for retelling, but her films came back again and again. They will doubtless go on doing so as long as cinema and romance are inseparable.

Nigel Andrews

Carmina Quartet

WIGMORE HALL

Any chamber group that secures the services of Mitsuiko Uchida gains the most exultant rating of partners. It is hard to imagine a pianist more likely to commit his or herself full-heartedly to the collective cause, more capable of inspiring through example. On Saturday she joined the young Carmina Quartet and a jampacked Wigmore Hall for Schumann's Piano Quintet; it proved to be no hastily assembled *ad hoc* performance, but one worked through with subtlety and perception and charged with finely targeted energy from first bar to last.

The Carmina are not short of good ideas, but the dominant voice here predictably was Uchida's. It's a work in which the piano shares the thematic spoils democratically with its partners, but whether shaping the first movement's second theme with lissom grace, providing a calming undertow to the sombre march of the second, or launching the final, exhilarating fugato with unbound energy, it was her

Me and My Friend

SOHO POLY

The winner of the 1986 Verity Bargate Award, in full production for the first time at Soho Poly, refines on one of the genres for which the latter part of the past decade will be remembered, at least in fringe history: the drama of disability. Where Lucy Gannon, a mental health worker turned dramatist, has trodden, hospice bursar Gillian Plowman now follows with a three-part comedy of care in the community. Or lack of it, as the case usually is.

The clever thing about this triptych is that the "issues" are not actually debated at all: they simply hang in the air like a great unarticulated question mark defining the loneliness of the two pairs of long-term patients who have been discharged from their protective hospital wards to neighbouring flats, with the instructions to "plan ahead" and be self-sufficient.

For the two men, who live downstairs, planning ahead consists of leafing through newspapers looking for jobs

they will never get; for the women upstairs, it is invested in a pyramid of coke-cans with which they hope to buy themselves the first of many holidays abroad. Self-sufficiency is a subtler concept which grows through the companionship of the two pairs: jocose and playfully competitive in the case of Oz and Bunny, whose first scenes - somewhat melodramatically culminating in a suicide attempt by Steve Swinscoe's mercurial Bunny - is the weakest of the three; a bossy protectiveness between Julia and Robin the shades of which are beautifully drawn by Nicola Redmond and Sonia Ritter.

An awareness of each for each is established through the

lovables Oz's parcel fixation: Tim Stern's delivery during the first section of a tenderly wrapped scarlet dress that once belonged to Oz's mother is picked up in the second, when its unexplained arrival throws the women back on their past lives and loves. Julia worked briefly as a prostitute, while Robin's breakdown was marked, we learn with a frisson, by the suffocation of her only child. It is in the finely acted final scene that Plowman draws all these strands into a black comedy of inadequacy, as the two pairs meet for a party in which social niceties are turned on their head, first humorously then menacingly, as high spirits - denied the protection of "normal" behaviour structures - get disastrously and predictably out of hand.

Deborah Paige's direction, on a set by Lucy Weller, is on attuned to the neurotic comedy of a cunningly structured play.

Claire Armitstead

Two tenors escaped it: Rodrick Dixon, as the romantic lead (if all goes well we should be hearing much more of him, since his voice flows with winning ease) and Dario Tenenbaum, who was amusing and incisive in a tenor role. Karen Ann Orlando was a pretty heroine. Paul Echols, conducting, failed through a score that needs but fingertip control.

The Manhattan School did Emmerich Kalman's *Countess Maritza*, Kalman is something of a cult composed here.

The score is a captivating sequence of waltzes, csardas, foxtrots, and shimmies orchestrated and counter pointed by a master.

The Manhattan Symphony, conducted by Kurt Klipshtatter, played it with proficiency and grace.

Andrew Porter

Masur appointment

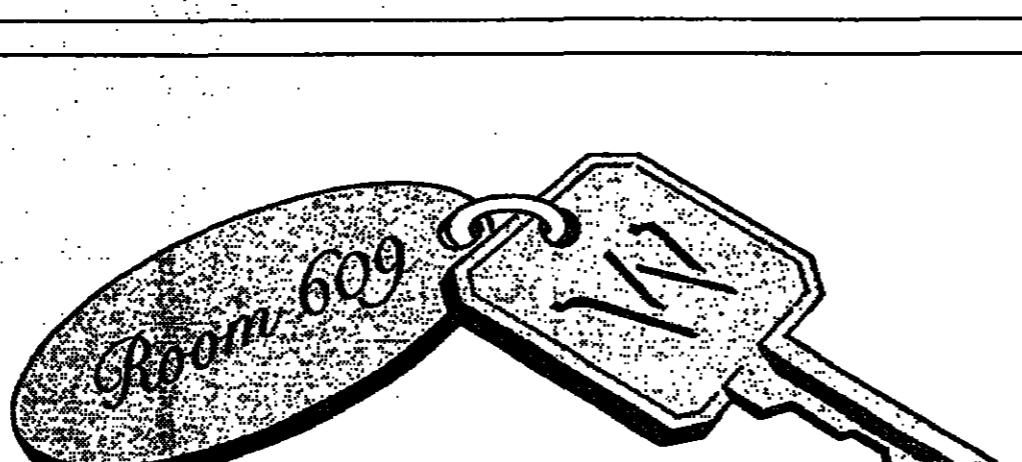
The conductors of three leading American orchestras have announced that they will not be seeking renewal of their current contracts: Zubin Mehta with the New York Philharmonic and the Berlin Komische Oper. He is well known in America as in London (where he is principal guest conductor of the LPO); he has brought the Gewandhaus here on several tours (the first in 1974) and has conducted all the main American orchestras.

His Philharmonic debut was in 1981, and he has conducted the orchestra several times since. The Philharmonic is not self-governing, but six members of the orchestra were (for the first time) actively involved in the search for their new conductor.

Dawn Rriggs, viola, and orchestra "chairperson," said Mehta was "a leader of unimpeachable moral and musical integrity," with whom the players could co-operate.

This is a strong sound, if in some ways conservative appointment. Dutoit is flashier; Slatkin at St Louis has championed the populist school of contemporary American composers; Mehta is best known in what might be called the "Mozart to Mahler" repertoire. That is probably right for the conservative Philharmonic audience. With Mehta in charge, we can look forward to hearing the basic essential repertoire rendered with "moral and musical integrity."

Andrew Porter



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Breaking the phone cartel

In the past decade, the world telecommunications industry has undergone a technological revolution which has made possible a flood of innovative, low-cost services. Yet consumers worldwide are being denied many of the benefits by an anachronistic producer cartel whose extortionate pricing practices are impeding efficiency and distorting the international allocation of economic resources.

Through a number of countries, notably the US, Britain and Japan, have deregulated domestic telecommunications services in recent years, liberalisation has stopped at their national frontiers. Competition on international calls remains almost non-existent, enabling the world's telephone companies to collude in keeping prices at levels which do not reflect the substantial fall in their own costs. This has resulted in international tariffs averaging three times costs, and the extent of over-charging is estimated at \$10bn a year.

These arrangements are defended by telephone companies on the grounds that they need high margins on international calls to subsidise their unprofitable local networks and national postal services. This argument is flawed. Such subsidies may well be socially desirable. But that determination should be a matter for public policy, not the result of arbitrary decisions taken by monopoly suppliers behind closed doors.

Tax on business

The current cross-subsidy is, in effect, a tax on the business users which are the main source of international calls. It falls particularly heavily on service industries, such as international banks and brokerage houses, which depend heavily on sophisticated telecommunications to link their worldwide operations. But the impact will also be felt increasingly by manufacturing companies, as they press ahead with the installation of electronic networks to tie together foreign plants and customer and supplier networks.

The European Commission and regulators in the US and Britain have all launched investigations into international telecommunications pricing.

Reducing the drug demand

BEING SO unwieldy, big international conferences can at best only set agendas for policy-makers. Given these limitations, last week's world ministerial drugs summit in London was a useful exercise.

The summit marked a long overdue shift away from the top-down emphasis on curbing the supply of illicit drugs. It recognised, instead, that equal attention has to be devoted to tackling demand. Previously, the heavy focus on curbing drug supply, a policy championed by the US, obscured the responsibility of the developed countries for tackling demand, while needlessly antagonising developing country producers.

Unfortunately, in a conference devoted in good measure to dealing with the demand for drugs, there was a notable absence of reliable statistics.

The number of heroin addicts is reasonably well estimated for both the US and Europe, and in developing countries like Pakistan. But the number of users and the total amount of heroin consumed is only a guess, as it is with cocaine. Consumption in Europe and the US has been mainly measured by the amount of the drug seized. There is a baffling gap between what is thought to be produced, on the one hand, and what is seized and allegedly consumed, on the other.

Even from the incomplete data, it is clear that measures to prevent drug production and interdict supplies are failing to prevent an increasing tonnage from reaching the international market. The successes claimed by the US in combatting cocaine demand relate to a levelling among high school students. Increased consumption in the decayed inner cities more than off-sets such gains.

Sharpened debate

This trend sharpens the debate over the policies best suited to tackling demand for drugs. Last week's summit showed a clear international consensus that demand can best be reduced by a three-pronged initiative: research, prevention and treatment, all underpinned by a more responsible climate towards drug use. Within this consensus, however, there remains a profound philosophical disagree-

ment. However, efforts to unravel the cartel face several hurdles, which underline the lack of effective international coordination in telecommunications policy.

Competition powers

The Commission's attempts to apply its competition powers to telecommunications in the past have proven politically controversial. Its scope for action may also be limited by its decision so far to exclude voice telephony from its plans to deregulate EC telecommunications services. None the less, it is possible that Brussels will conclude that the international accounting system violates the Rome Treaty's anti-cartel provisions.

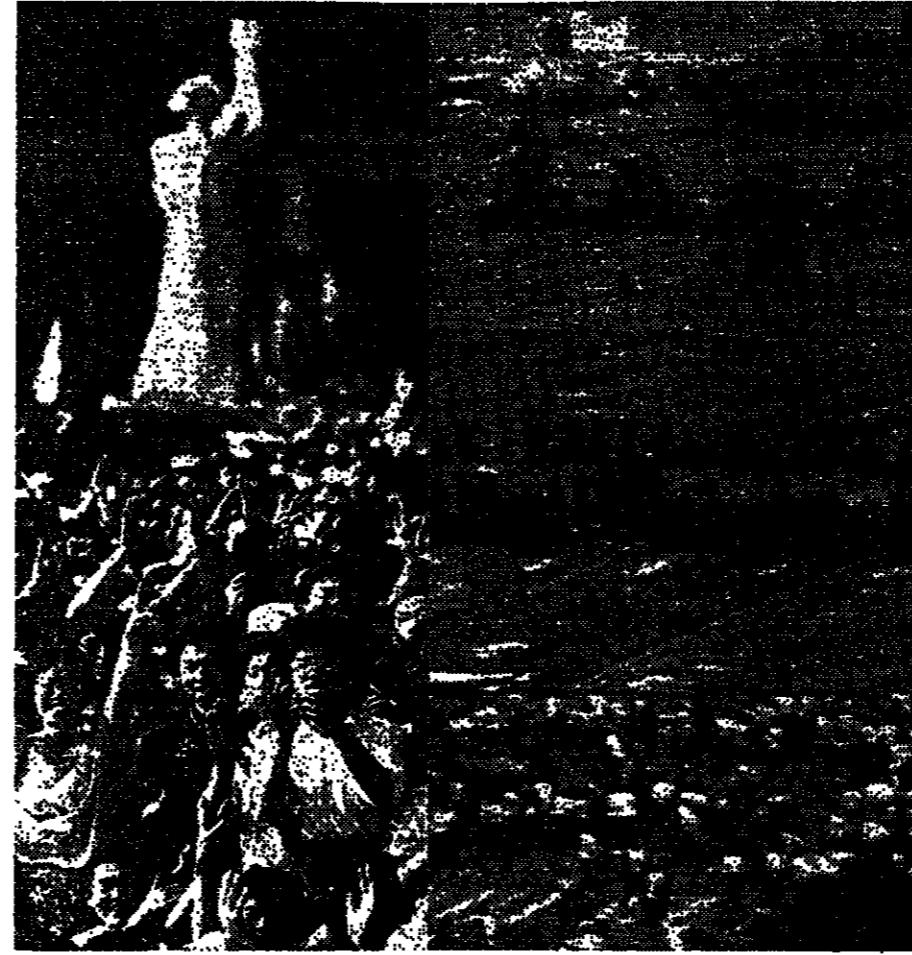
A further problem is the lack of bilateral and multilateral agreements which telephone companies have woven over the years. This makes it impossible for one country to introduce competition on international circuits if others refuse to reciprocate. Given the hesitant approach still taken by many governments even to deregulation of domestic telecommunications services, any proposal for negotiated, multilateral liberalisation of international calls would be unlikely to succeed.

The best hope for speed change may lie in bilateral action by governments strongly committed to competition in telecommunications. The US and Britain share such a commitment, and the transatlantic links between them are among the busiest in the world. It should be in both countries' interests to abolish price-fixing on bilateral routes and to license new entrants to compete on them. Free competition would benefit their own economies and, in time, put pressure on other countries to follow their lead.

All the evidence suggests that the spread of competition would benefit service providers as well as their customers. Many studies have concluded that any revenue lost by cutting prices on international routes would be more than offset by higher traffic volumes. By abandoning their antiquated monopoly practices, the world's telecommunications companies have nothing to lose but their chains.

Colina MacDougall reports on China one year after the protests began

The ghosts of Tiananmen



Pro-democracy protesters (left) in Peking a few days before the army moved in. Right — the confrontation

These are tense times for the old men who lead China. One year after the start of the wave of student-led protests that culminated in the June massacre in Peking's Tiananmen square, the consequences are continuing to haunt them.

And if China's leaders wanted to bury the memory of the events themselves, a series of emotive anniversaries has just begun that will ensure they can not.

Many Chinese remain resentful, the army looks less united, and the minorities are restless. Alarmingly for China's ageing leaders, world communism is on the wane. Even the people of neighbouring Nepal, which adjoins the sensitive Chinese province of Tibet, are demanding multi-party democracy.

The economy is close to paralysis. Unemployment, wage cuts and a drop in the standard of living for urban workers have increased the leadership's unpopularity. The cautious policies announced at the National People's Congress, the annual parliamentary session which finished its deliberations at the beginning of this month, seem unlikely to improve matters.

The going has been made more difficult by the continued application of sanctions by western governments. Straight after the Tiananmen massacre the US, Europe and Japan froze government loans, the sale of military technology and high-level exchanges. With governments increasingly aware that China's instability reduces its value as a market, that it no longer has value as a counterbalance to Moscow, and that its human rights record is appalling, there is no great pressure to remove them.

While the sanctions have frayed slightly at the edges — a few loans have gone ahead and President George Bush, convinced of his skill as a China-watcher, twice despatched his National Security Adviser, Mr Brent Scowcroft, to Peking to maintain contacts — China is still unable to contain its programme of importing technology for lack of cheap foreign credit. Important infrastructure developments are on hold because of the freeze on most World Bank money.

Against this background, the leadership is keeping a tight clamp on the capital as the anniversaries of last year's events approach. Sunday was the first. It was the anniversary of the death of Hu Yaobang, the reformist party leader who was sacked in 1987 and whose name figured prominently in the student demonstrations that subsequently erupted in the capital. A lone protester who attempted to lay a wreath in memory of "the heroes who died for democracy and liberty" was seized instantly and led away by police.

Still to come are the anniversaries of Hu's funeral on April 22, of the big Peking marches through April and May last year, of the start of the students' hunger strike on May 13 which brought most of Peking's citizens out on the streets, of the imposition of martial law on May 20 and of the shooting on June 3 and 4.

Small wonder that the authorities have posted enough extra troops to Peking to bring their numbers up virtually to martial law strength.

A particularly tricky hurdle for today's leaders will be May 4, usually marked with official celebrations because it commemorates patriotic student demonstrations in 1919 which led to growing restlessness throughout the 1920s. Some of today's communist elders took part, so it cannot be ignored.

Faced with a continuing groundswell of popular discontent, the conservative leadership that swept to power during the protests last year has been rooted to the spot. The recently-ended party Congress was

the most docile for years. Changes in the leadership, much rumoured in advance, did not materialise — and the conservatives appeared to be riding high.

Rumours that the deeply unpopular president, Yang Shangkun, would be kicked upstairs to a post more suited to his age (82) proved premature, as did similar stories that Li Peng, the prime minister who masterminded last year's official violence, would go to a less prominent job.

Resentment is high, the army looks less than united, the minorities are restless, and the economy is paralysed.

The tougher post-Tiananmen version of Hong Kong's Basic Law, its post-1997 constitution, was passed, incorporating a clause outlawing all "subversion" (a blanket ban Hong Kong fears could be used to muzzle even the faintest criticism of Peking). It also confirmed that only a third of the territory's Legislative Council — not enough to provide any sort of democracy — would be elected by 1997, the year it reverts to China.

Deng Xiaoping, the 85-year-old paramount leader who initiated China's reform 12 years ago, retired from his last formal post as chairman of the government's Central Military Commission (he was replaced by Jiang Zemin, the uncharismatic party boss

who yields little real power over the military).

Deng remains senior leader, but his degree of influence is now arguable. He extracted no similar concession from the equally elderly (but much fitter) President Yang Shangkun, who grabbed many of the reins of power and boosted his family's position in the crisis last year.

One look at current economic policy is enough to confirm the ascendancy of the conservatives. Economic reform was in any case put on hold in 1988, when rampant inflation prompted the leadership to change tack and clamp down on private enterprise. After the bloodshed of last year, reform was frozen altogether. The economy now appears locked into the "austerity policy" of the last two years, with just a few concessions to industries desperate because of cash shortages.

The freeze on such ground-breaking liberalisation moves as the sale of shares in state enterprises to private citizens remains in force. Li Peng, in his key report to the Congress, emphasised centralisation, subsidies and priority for large, state-run projects. Private enterprise, which in the early and mid-1980s gave a whole new dimension to the economy, is being cut back to a minor role.

The consequences of the austerity policy, even in its slightly amended form (yuan 50bn is to be injected into the economy to relieve credit bottlenecks) are likely to be more of the same: unemployment, low output and a falling standard of living.

The unemployment problem is par-

ticularly acute in the countryside. As small industries in the towns have closed down as a result of the credit squeeze, workers have been told to return to their villages, which are no longer able to support the extra bodies.

In recent months, the credit squeeze has closed some 2m small enterprises and the rural labour surplus has risen to around 100m. Other plants, unable to pay for raw materials or sell their output, now shut for a

few days a week. Pay packets have shrunk as enterprises can no longer afford bonuses. Government bonds are sold by forcibly deducting cash from wages. The value of stockpiled products nearly doubled last year, locking in an extra yuan 50bn.

To be sure, Peking has improved its trade balance (imports fell sharply in the first quarter this year, giving the country a surplus of \$1.6bn compared with a deficit of \$1.2bn in the same period last year). But even a modest readjustment could halt this trend. China needs to post a sizeable trade surplus this year in view of the peak in payments on its \$40bn foreign debt expected in the next couple of years.

On top of all these problems, Chi-

na's hard-line leadership has failed to seize the opportunity of last year's slowdown to carry out structural changes such as price reform. No-one disputes that even in the present circumstances Peking could kick-start the economy if it chose to. But without reforms it will continue to lurch from crisis to crisis. Now it may be too late, and no benefit will accrue from several years of belt-tightening.

Nothing may change until the now-frail Deng finally departs from the scene. Chinese refer wryly to present leaders as a "new Gang of Four" seeing a replay of the events of 1976 when the Peking bosses of the time plotted and counter-plotted as Mao Zedong, the communist founding father, lay dying. When he was safely buried, the generals, who had previously supported the status quo, changed sides, arrested Jiang Qing — Mao's widow and the Gang's leader — and set China on the path to reform.

It is a moot point whether history will repeat itself. The New Gang gave the army a substantial bribe at the Congress to ensure its continuing support, in the form of a 15 per cent increase in their allocation under this year's budget. This contrasts noticeably with the long freeze that Zhao Ziyang, the dismissed party leader, imposed on funds for the military when he was prime minister.

The bribe was probably needed. The army has been seriously divided since it was used as a brutal police force last June. The injection of money may go some way towards satisfying the younger professional element in the military.

Younger officers wanted to stay out of politics, modernise the military and end the nepotism of President Yang Shangkun and his brother, Yang Babing.

The Peking leadership clearly does not wholly trust the army. The People's Armed Police, the paramilitary force responsible for internal security and much in evidence in the capital, saw a big reshuffle of its commanders in February and may have been brought under closer control by the Central Military Commission, which is the power-base of the Yang family.

Stiff political re-education campaigns have been introduced. For the other ranks there is the chilling but omnipresent "Learn from Lei Feng" movement (Lei Feng was a 1960s-style exemplar of unquestioning loyalty). The army's political department has been urging the study of Marxism with particular reference to what Peking calls the "struggle against peaceful evolution and bourgeois liberalisation".

Since the Congress ended, the importance of the army's role has again been undermined. Earlier this month, in the wake of Soviet riots in the Moslem republics of Azerbaijan and Kazakhstan earlier this year, Chinese troops had to be flown to Kashgar to put down riots by Moslems protesting against prohibitions on building mosques. These riots are unlikely to presage an independence movement since China's Moslems lack an effective leader. Nevertheless they are a serious problem for a leadership already besieged by a sea of troubles, many of which, like the general hostility it has engendered and the mismanagement of the economy, are of its own making.

But Peking's elders are unlikely to do more than screw down the clamps on unrest. After 41 years in power, they want only to avoid the fate of Ceausescu, an attitude not conducive to creative thinking. If force is needed to keep the capital quiet during the coming anniversary season, they will not hesitate to use it. The sharpest question in their minds must be will the army stay loyal? They are doing their utmost to ensure that the answer is yes.

Guinness rolls on

■ When the Guinness trial finally began in February, it was widely described as the City trial of the century.

I personally think that the Royal Mail case, which caused Lord Kylsant to be put away in 1981 for issuing a false prospectus, will take a lot of beating. But with nine weeks of the trial now gone, I decided to see how things were settling down in the court where former Guinness chief, Ernest Saunders, and his fellow defendants confront the majesty of the law in the first of the two trials.

They face charges relating to an allegedly unlawful share support operation mounted during Guinness's bitter takeover battle in 1986 with Argyll for Distillers.

The first shock was purely aesthetic. Whoever designed Southwark Crown Court looks to have had a massive power station in mind before succumbing to a late change of taste.

The second surprise was the informality of the proceedings. When I walked into the courtroom, Ernest Saunders rushed up to shake my hand and introduce me to his son James, whose book on his father's tribulations is now doing rather well in paperback.

I had met Saunders only once before, in a television studio at the height of the bid battle. He was, I recall, greatly irked by questions about the degree of help Guinness then enjoyed from Bain, the secretive management consulting firm which lent Guinness the services of finance director Oliver Roux. Perhaps I had unconsciously expected to see him in a ball and chain. For whatever reason, the warmth of the welcome was unexpected, as was the general atmosphere.

OBSERVER

is, admittedly, an army of bewigged lawyers. But they sit at tables that look as though they might have been borrowed from a primary school.

The three other defendants — Gerald Ronson of Heron group, Anthony Farrens, the former stockbroker who spent six months before returning to Britain, and financier Sir Jack Lyons — are allowed time off court when their presence is not specifically required. Millionaires all, they have hired the brightest and best in the legal profession to defend them.

In contrast, Saunders is on legal aid, with most of his money used up on legal expenses. He lacks the corporate support system of his co-defendants, having been uncannily dumped by members of the Guinness family whose wealth he helped restore. And he has to stay in court throughout.

Legal eagle

■ It takes no time to identify the star of the show. Richard Ferguson QC, counsel for Saunders, is a former Unionist MP who is probably best known outside legal circles for his appearance on behalf of the Birmingham Six. He has a powerful presence in court, as well as humour and charm. But there is a hint of danger in the air from the moment he starts cross-examination.

The virtues of John Chadwick QC, for the prosecution, are of the more solid variety. Last week Saunders's former secretaries were being questioned about an alleged instruction to shred a diary — presumably not the sort of thing they tell you how to handle at secretarial college. Ferguson exposed a conflict between the evidence of the shredder, Margaret McGrath,

raised eyebrows in and out of court. So, too, did evidence from Dr Horst Tiefenthaler, former London manager of Zentralsparkasse und Kommerzial Bank. In what may prove to be one of the more damaging assertions of the trial, he alleged that Lyons had suggested he invoice Guinness for the amount of his bank's losses on the sale of Guinness shares under the description "consultancy fees" — despite the bank having performed no consultancy services.

Fourth estate

■ The press corps is down to about half a dozen from the 25-30 who attended at the outset. Last week the gathering ranged from the Sun — chief angle, how are the mighty fallen — to the Morning Advertiser, which caters to the licensed victualling trade. Saunders, who earlier sought a ban on press reporting, chats freely with the journalists in the coffee break. Their collective view is that the prosecution has yet to drive a coach and horse through his defences.

As with the Royal Mail case, much of the interest centres on the role of City advisers. In the 1980s Harold Morland of Price Waterhouse was acquitted of charges of false accounting, largely thanks to the admission by an expert witness not unrelated to the present writer about the acceptability of reserve accounting.

In this instance it is Roger Seelig, one-time star at Morgan Grenfell, Lord Spens, formerly of Henry Ansbacher, and David Mayhew, still of Cazenove, who are down to appear in the second trial. Sobering for the City at a time of jail riots around the country. As one corporate financier put it recently, the small print in formal documents was always a bother. Now it's a bother that can put you in the dock.

Details of Sir Jack Lyons's behalf

direct lobbying of the Prime Minister on Guinness's behalf

Minister

The mood among insolvency experts around Britain is buoyant. But since it has been since the mid-1980s, but the rate of corporate mortality has not yet reached a level where the professionals feel obliged to hide the improvement in their business behind an undertaker's gloomy exterior.

The number of receiverships so far this year - double that of the first quarter of 1989 - suggests a leap in corporate failure comparable to that of the bad years of the early 1960s or the recession of 1974. But comparisons would be wrong for two reasons.

First, the number of companies being formed rose sharply during the 1980s. Last year, 120,000 new companies were set up. The number of traders registered for VAT grew by around 70,000.

Given that many new companies fail in their early years, there are now more businesses to go bust than in previous economic downturns. So it is not surprising to learn that insolvency experts around the country have found a springing of companies from the Thatcher era among those getting into problems of late.

The second important difference is that few large companies have gone to the wall so far. This is partly due to the attitude of bankers. "Larger companies are being supported at the moment," says Mr Michael Jordan of Cork Gully, the UK's largest insolvency firm. Mr Nigel Hamilton, his counterpart at Ernst & Young, adds: "The banks are holding the line as hard as they can. They are supporting a lot of companies they wouldn't have done in the past. How long can they do that?"

The answer depends on what happens to interest rates over the coming months. Insolvency practitioners, who have their finger more firmly on the economic pulse than many, almost all agree that insolvencies will continue at their current level throughout the year if interest rates do not change.

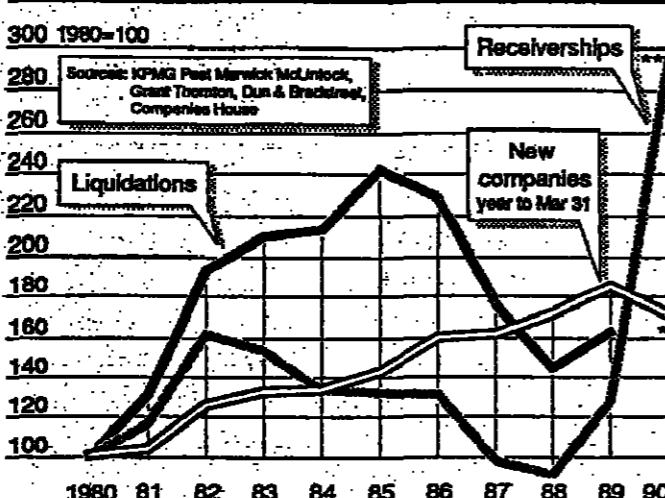
If rates rise, though - or stay high beyond the end of the year - the pain will intensify as the pressure mounts on larger or better run companies.

Even if the banks begin to pull the rug, the immediate social effects are not likely to be as painful as the early 1980s. "Fewer communities are dependent on particular industries, or companies," says Mr Hamilton. "Fifteen years ago, if you closed down a couple of mills, say, you could wipe out a town pretty easily. Now it's quite different."

The pain from this "smoke-stack era" is unlikely to be felt

Richard Waters says UK liquidators are doing well

A boom in going bust



again, says Mr Jordan. "A lot of British industry is in very good shape indeed," he adds.

This is the overall picture: experience differs greatly around the country, however. Mr Gordon Horsfield, in charge of Price Waterhouse's regional insolvency activities, explains:

"Insolvency has been running as a tide, starting in the South. It has now reached the West Midlands, and is nibbling at Yorkshire and Humberside, and the North West."

Most professionals bear witness to this "ripple effect," which has seen corporate failures spread out from London and the South. Most also agree that two industries in particular have suffered from high interest rates - property and retailing - while the suppliers to these industries are beginning to feel the draught as well.

In the region around Southampton, the increase in insolvencies has been at one of the highest levels: Mr Peter Padmore, who runs Price Waterhouse's insolvency work in the region, says he has 23 staff working in the area, compared to seven a year ago. "We have been borrowing people from our Scottish and North East offices, because they aren't experiencing the same level of work," he says.

However, the increase in corporate failures has not eaten deep into the local economy. "You could describe it as the froth being blown off the top. There is an underlying buoyancy and resistance," Mr Padmore says.

In London, Mr Tim Hayward, in charge of KPMG Peat Marwick's insolvency business in the region, says his staff has grown to 110 from 80 a year ago, with up to 30 more working part-time. Experience around the capital is "very patchy," he says, with "the High Street hit the hardest." Higher costs due to the new uniform business rate and rent reviews are likely to intensify the pressure on retailers.

• The West and South West region alongside London and central southern England as the areas that have suffered most in recent months. Mr Simon Pomeroy, of Peat Marwick in Bristol, puts this down to the high number of start-ups in the area. The downturn, he says, is "much sharper than the early 1980s, but I doubt it will go as far."

Meanwhile, there appears to be no shortage of local buyers for businesses that get into trouble. Mr Ryan Densham of Price Waterhouse in Bristol, says he is "surprised and delighted" that there are "plenty of 'white knights' ready to take on an ailing business."

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LETTERS

History: too important to be left to the staff room

From Mr Andrew Shouler.

Sir, In attacking the Government for its disservice at the working party's recommendations for history-teaching within the National Curriculum, Michael Prowse ("Leaving it to the History Man," April 11) manages to condense an enormous amount of gibberish, liberal nonsense into very few sentences.

Supposedly, "existing flaws" include "the tendency to regard Britain as the centre of the universe and to play down the importance of social and economic history." Besides doubting that as a matter of fact, is it not obvious that, since nowhere else is the centre of the universe either, pupils should learn about their own country first? As not everything that there is to know can be taught, it is simply a matter of logical prioritisation.

Social and economic history, meanwhile, tends to be a euphemism for the handing

down of a liberal (biased) interpretation of the past. The effect of a generation of children being "educated" (in the Russian sense of the word) by readers of the *Guardian* is only too pitifully obvious.

Many young people know how to be argumentative shamelessly and without humility, how to repeat socialist nostrums about the Third World and such like, but not many seem to have the factual basis to contribute anything worthwhile to sensible discussion.

Apparently, what the Government intends for the teaching of history amounts to "political interference." This contention may be viewed at two levels. To the extent that the state finances education, it is not "interfering" if it directs the syllabus. He who pays the piper... A problem there arises only if parents are not able to place children in schools outside the state sector. Since many are not, on account of prohibitive cost and the lack of alternative, that is the problem to be addressed.

Mr Prowse believes an emphasis on world history is "clearly desirable" in what is now a middle-ranking, multicultural nation. In what sense is the UK middle-ranking? Cer-

tainly not economic, certainly not political, especially not historical. Perhaps the description refers to an unstated weighted average incorporating geographical size? As for multicultural, that is a relatively recent historical issue itself, one which, doubtless, is not to be discussed for its rights and wrongs.

What is taught in history lessons is too important to be left to the inner sanctums of the staff room and educationalists bent on fostering "social awareness" over knowledge. It is vital that precisely what is taught and tested is out in the open for all to see. History must not be allowed to continue to be abused.

Finally and touchingly, we are told that Bernard Shaw "would have approved" of the working group's designs. That really is not much of a commendation.

Andrew Shouler,
155 Conway Gardens,
Grays, Essex

Corporate PEPs: cost-effective for the individual investor

From Mr Richard Cockman.

Sir, I am sorry that Lex ("PEPs," April 6) is less than fulsome in the reception given to the recently announced Smith & Nephew corporate PEP and such dedicated plans generally.

Of particular concern is that he seems to be losing sight of a fundamental aim of corporate PEPs. This is that such plans

are designed to be attractive to an individual who has already identified a particular equity as being one in which he would like to invest. The corporate PEP is then a means by which he can invest extremely cost effectively in that company and thus feel that the company is trying to assist him and therefore be a good company worth investing in.

Moreover, there is no suggestion that anybody is locked-in. Indeed in most corporate PEPs, the participant can liquidate his holding and transfer into

another PEP, be it corporate or managed, at very low costs.

Collectivism can be appropriate, but there is a lot to be said for giving thought to the individual and that is certainly one advantage of the corporate PEP.

Richard Cockman,
Chairman,
CC&P
25/26 Bedford Row, WC1

A positive relationship between productivity and wage increases

From Mr Cliff Pratten.

Sir, Professor Layard (Letters, February 14) makes the following three claims:

If one compares the 54 main branches of industry over the period 1979 to 1988 there is no correlation between the rate of productivity growth and the rate of wage increase.

Huge differences in productivity growth between industries have been mainly due to technological differences and nothing whatever to do with differential work effort.

Employers have rewarded workers for improved working practices... But these improvements have been scattered across industries in a way that was unrelated to overall productivity growth.

Professor Layard refers to the relationship between the

percentage increases in productivity and percentage increases in wages for 54 branches of industry over the period 1979 to 1988 to support his claims.

As Professor Layard suggests, there is little correlation between the two variables, but this may be explained by the other factors affecting productivity increases apart from changes in wages and errors in the measurement of the variables.

Professor Layard has not resolved the well-known problem of measuring productivity growth and his measure of wage increases is confused by the timing of large increases in wages in 1979 and 1980, the incidence of strikes and changes in overtime working.

In fact, Professor Layard's data do indicate that there is a positive relationship between productivity and wage increases. Over a period of, say, a century differences in productivity are due to technological differences as Professor Layard

says as an opportunity" - a factor which seems stronger here than in some other areas.

Leisure developments in the region seem to be suffering, alongside the property and retail industries. According to Mr Richard Neville, of Peat Marwick in Plymouth: "When times were good, people tended to develop more speculative leisure schemes. These suffer first." But centres like Truro, Plymouth and Tiverton have seen little of their economic growth of recent years destroyed, he adds.

• Further North, meanwhile, insolvencies have only recently begun to rise. Mr Roger Taylor, a Peat Marwick partner based in Sheffield, says his office has increased insolvency staff from five to nine since last summer.

Insolvencies are in all types of industry, and in companies of all ages. Here, as elsewhere, there is one unifying factor: "Management has a lot to do with it," says Mr Taylor. "It's very rare that poor management doesn't contribute to the demise."

• The region around Leeds has seen a similar upswing in insolventcies since the start of the year. Mr Horsfield of Price Waterhouse points to the property and construction, retail and textile industries. Compared to the recession of the early 1980s, the latest downturn is more of a "short sharp shock" for the region, he says.

• By contrast, the North West has been less affected - through a rash of insolventcies in the last two months may intensify. According to Mr Derek Slade of Ernst & Whinney in Manchester: "We were not feeling it at all, and I was hoping we would miss it. But since Christmas, it has been bubbling along."

• Scotland, meanwhile, has hardly felt the chill in the business climate at all. "There has been no rush of problems, and banks don't have a great mass of companies that will go wrong in the future," says Mr Alan Jamieson of Price Waterhouse in Edinburgh.

• The answer to the first question is that Soviet opposition looks more serious than Western experts assumed at first.

It is true German neutrality would have dangers for the Soviet Union as well as for everyone else and that in putting it forward, the Soviet leaders underestimated the misgivings it would arouse among their nominal allies in the Warsaw Pact.

But others may have underestimated the difficulty Mr Gorbachev will have in persuading his party colleagues and the Soviet armed forces to accept that the whole of Germany - the invader vanquished at such enormous cost in the Great Patriotic War - is now to be incorporated into the anti-Soviet alliance led by the rival superpower.

Since Mr Yegor Ligachev raised the issue at the February plenum, the Soviet leadership has become engaged in a "who lost Germany?" debate, in which Mr Gorbachev is on the defensive.

The answer to the second question, however, is that opposition is almost certainly not tenable for very long.

Having allowed the German political process to get as far as it has, it is hardly possible for Mr Gorbachev to start using his armed forces in East Germany to frustrate it.

The Soviet Union will certainly not want to get into conflict with the East German population, and were they to do so,

it is as good as certain that the process of German unification will be the admission of the reconstituted East German Länder into the Federal Republic under Article 23 of the Basic Law.

An incidental advantage of that procedure is that it minimises problems for the European Community.

Obviously it is not strictly true that the Community will carry on as if nothing had happened, but it can confine its attention to relatively straightforward technical issues. It will still have the same membership as before.

Does that apply to Nato too?

In theory it could, and if it did, it would similarly make life easier for a lot of people. But there are two real problems blocking that: the Soviet Union's proclaimed opposition and the underlying ambivalence of the Germans about Nato's future purpose and structure.

The Soviet problem breaks down into four parts.

Is Soviet opposition real? Is it tenable? What price will the Soviet Union seek to exact for dropping it? And what price should Germany and the West be prepared to pay?

The answer to the first question is that Soviet opposition looks more serious than Western experts assumed at first.

It is true German neutrality would have dangers for the Soviet Union as well as for everyone else and that in putting it forward, the Soviet leaders underestimated the misgivings it would arouse among their nominal allies in the Warsaw Pact.

Most Western governments want him to remain in power and will be prepared to make concessions on the German issue if they think it can help him overcome his domestic difficulties.

In some cases, their instinct is to help him less by concessions on substance than by taking things gently; to give him time to bring recalcitrant colleagues around or outmanoeuvre them in the domestic power struggle. But it could equally be argued that the West's interest is to move as quickly as possible so that any

FOREIGN AFFAIRS

Creating a new alliance

German unification means ending the division of Europe, argues Edward Mortimer

the effects would hardly be confined to East Germany.

Mr Gorbachev is therefore condemned to bargain from a position of weakness. But weakness in itself, in the hands of a skilled player, can be a useful diplomatic card.

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mand, in which France would replace the US, would be more acceptable either to Germans or to Russians than the present Nato one; whether the US would be willing to keep forces in Europe as an ally even though it was not part of such a new integrated command; and whether US forces could sensibly be stationed anywhere else in western Europe if they were removed from Germany.

Above all, the question of new pan-European structures will have to be faced. Such structures are clearly what Soviet spokesmen have in mind when they talk of Germany being neither neutral nor in Nato, or of it belonging both to Nato and to the Warsaw Pact. They are also now being actively canvassed, in slightly different forms, by both the Polish and the Czechoslovak governments.

West German conservatives speak of Nato as part of, while Social Democrats envisage it being replaced by, "European peace order"; and President Mitterrand's New Year remarks about a "European confederation" presumably point in the same direction.

All these proposals take the Conference on Security and Co-operation in Europe (CSCE) as their starting-point.

Even Mrs Thatcher, in her Cambridge speech last month, spoke of making this autumn's CSCE summit "a major step towards the creation of a great alliance for democracy, which would stretch from the Atlantic to the Urals and beyond."

Others have pointed out that

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FINANCIAL TIMES

Tuesday April 17 1990

Not just Number 1 in Plumbing Supply
WOLSELEY

Japanese strategy to win friends

Barbara Durr in Chicago reports on donations to US universities

WITH the climate for Japanese investment verging on the hostile in America, Japanese companies and banks are trying to recast themselves as open-listed good guys instead of land-grabbers.

The Tokai Bank last month gave \$1m to endow a chair at Northwestern University's Kellogg Graduate School of Management near Chicago - a gift that is expected to be part of an estimated \$170m worth of total Japanese philanthropy to US universities this year.

Mr Terry Myers, senior vice president of Tokai Bank in New York, said a basic reason for the gift was for a change of image. "There's so much Japan-bashing going on right now that we're trying to say 'Hey, we're just here to do business.'

Mr Myers also said that Tokai, which already has some executives who are graduates of the Kellogg school, was interested in future recruiting there. The Tokai Bank is Japan's sixth largest in terms of assets.

The importance of Japanese philanthropy in Japan's relations with the United States was underlined recently by a Japanese Government decision to make corporate donations to American schools, hospitals and community organisations tax deductible from April 1.

The Japanese Chamber of Commerce is trying to promote such corporate giving by distributing a handbook called "Joining In".

While the pattern of donations may change, many Japanese businesses have had a tendency to prefer high-profile contributions to prestigious universities rather than unknown local charities.

The Kellogg School, ranked the number one business

school in the nation last year in a magazine survey, is only the latest among top business schools to enjoy Japanese largesse. Donations to graduate-level business schools have taken off during the last decade as Japanese companies sent their personnel to American schools for foreign experience where they searched for American managers for their US subsidiaries.

Mr Craig Smith, a business consultant in Seattle, Washington who tracks corporate phil-

anthropy, said that Japanese gifts to American universities had been rising at an annual rate of 40 per cent over the last five years. US corporate giving had meanwhile been flat at about \$2bn annually, he said, prompting universities to seek new money from the flush Japanese.

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Many Japanese donations go to Japanese studies programmes at both the undergraduate and graduate levels, and they are particularly concentrated in university engineering and science departments. There, donors can sometimes have privileged early access to commercially applicable research.

But in the increasingly competitive atmosphere between the United States and Japan, these kinds of contributions have stirred controversy. Some recent outright purchases of small universities have also not improved the American view of the Japanese. But donations to business schools

seem safer from criticism.

The Massachusetts Institute of Technology's Sloan School of Management is the biggest recipient of Japanese monies. It has five endowed chairs worth \$6m. These are from Nomura Securities, Nippon Telegraph and Telephone, Kirin Brewery, Mitsubishi Bank and Dai-Ichi Kangyo Bank. Mitsubishi also made perhaps the earliest gift of this kind to MIT in 1979, with a \$400,000 endowment to a career development professorship, which rotates among young faculty members every three years.

The University of Pennsylvania's Wharton School of Business, another magnet for Japanese donors, created a US-Japan Management Studies Center in 1983 with \$1m in Japanese gifts co-ordinated by Kanda, the powerful Japan Federation of Economic Organizations. Last year, it received two endowments for chairs worth \$1.25m each from Nomura Securities and Nippon Life Insurance, a \$1m scholarship fund from the Long-Term Credit Bank of Japan and \$500,000 for an amphitheatre from Yasuda Trust and Banking.

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likely to remember Tokai. "It's good advertising," he said.

Such advertising is also done at other top schools. Harvard University's Business School has \$2.25m in endowments for two chairs by the Industrial Bank of Japan and Konosuke Matsushita, the late chief of Matsushita Electric Industrial.

Stanford University's Business School has endowments worth \$3.4m for three chairs by Matsushita, the Industrial Bank of Japan and Sanwa Bank. And Columbia University

is the latest among top business schools to enjoy Japanese largesse. Donations to graduate-level business schools have taken off during the last decade as Japanese companies sent their personnel to American schools for foreign experience where they searched for American managers for their US subsidiaries.

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King of Nepal asks opposition to form government

By K.K.Sharma
New Delhi

NEPAL'S King Birendra yesterday invited the opposition alliance of the Nepali Congress and the United Left Front to form an interim government, giving leaders of the democratic reform movement total victory after a struggle lasting just two months.

The King, one of the world's few absolute monarchs, made his concessions in a royal proclamation he read on radio after a campaign in which some 200 people have died.

He has promised a constitutional head of state on the

British pattern.

The invitation to form an interim government was given to Mr Ganesh Man Singh, 76, head of the Nepali Congress, who is the acknowledged leader of the movement for restoration of multi-party democracy and free elections in the Himalayan kingdom.

However, late last night Mr Ganesh Man Singh rejected the offer on the grounds of ill health. He had ousted Prime Minister Krishna Prasad Bhattacharya, acting president of the Nepal Congress.

The invitation to form an interim government is expected to work out constitutional details and other reforms to introduce democracy after 30 years of "partyless democracy" and "autocratic rule by the King.

Through the proclamation, the King has dissolved the National Panchayat (assembly) elected under the partyless system, dismissed the Prime Minister he appointed a fortnight ago and allowed freedom of the people to assemble and take part in peaceful processions.

The main political concessions were made after thousands of people besieged for 15 hours a half mile where Mr Lokendra Bahadur Chand, the Prime Minister appointed by the King, held fruitless talks with leaders of the democratic reform movement.

As word went round that the talks aimed at establishing an interim government to pave the way for democratic reforms had failed because the Premier had not been given the required mandates by the King, frenzied mobs surrounded the hall in the Royal Nepal Academy.

As they raised slogans demanding the King abdicate, it became clear that the movement was again being directed against the monarchy which has traditionally been above criticism.

The operation is by far the largest carried out by the army in Kashmir so far. Apart from breaking the organisational structure of the JKLF, the

terrorists and claimed the security forces had made a "breakthrough" in recent days in arresting important militants.

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FINANCIAL TIMES COMPANIES & MARKETS

Tuesday April 17 1990

INSIDE

SmithKline taps US capital advantage

SmithKline Beecham plans to raise between \$500m and \$1bn in long-term capital through the issue of so-called auction rate preference shares in the US. The issue of such shares makes use of a long-standing US tax concession, which aims to reduce the double taxation of dividends when shares in one company are held by another. The group says that it will therefore be able to repay debt arising from its merger last July and increase shareholder funds, without diluting future earnings. Stephen Fidler reports. Page 22.

Changing issues of privatisation



The message of recent initiatives at British Petroleum, British Telecom and British Airways is that the success of privatisation rests on a change in the way the businesses are managed. This change will, in turn, set a very different context for debate about the future of privatised companies in the UK. A by-product of privatisation has been the creation of a system of industry regulators. Combined with the powers of numerous Government bodies, this has created formidable regulatory force. The issue of the 1990s may well not be who owns companies but how they are regulated, writes Charles Leadbeater. Back Page

BTR decision expected Thursday
BTR, the UK industrial conglomerate, and Norton Company, the Massachusetts-based abrasives and ceramics manufacturer, file briefs today in Norton's appeal against a lower court ruling that the company must hold its annual meeting on April 20, rather than postpone it for two months as it had wished. The US appeals court decision is expected on Thursday. Meanwhile, the Massachusetts legislature is considering speedy passage of a bill which would limit the proportion of a company's board that could be elected in any one year to one-third. Page 25

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Economics Notebook

The UK and minimum reserves

EVERY SO often a well tried and trusted economic policy tool in one country is plucked out of obscurity and becomes an object of enthusiastic support in another.

This process seems to be happening to minimum reserve requirements, the non-interest bearing deposits that banks in West Germany are obliged to place with the Bundesbank.

These reserves, which in January amounted to some 4.9 per cent of West German bank liabilities, were once an important weapon in the West German Bundesbank's monetary arsenal. They entered a gentle decline in the 1980s. But they are increasingly being put forward as a way for Britain to curb the private sector's large appetite for credit without the pain of continuing high interest rates.

Minimum reserves have some superficial attractions as an instrument of money and credit control. By raising or lowering them, a central bank can give the banking system a very clear signal that it wants to clamp down on or ease credit expansion.

But suggestions that minimum reserve requirements act as an effective credit control that can avoid the need to raise interest rates are more questionable. The British authorities believe that UK banks, when faced with an increase in minimum reserve requirements, would simply compete all the harder for deposits, raising interest rates in the process.

The official UK view was put forcefully by Mr Robin Leigh-Pemberton, the Governor of the Bank of England, in his recent Durham lecture. He said: "They work through their effect on money market interest rates, and would not therefore provide an alternative to interest rates, simply an alternative - and an unnecessary

one - to our existing methods of influencing interest rates."

If the British are so negative about minimum reserves, why do the Bundesbank and other central banks retain them?

Part of the answer could be inertia: many monetary authorities like to hold on to policy instruments in case they might come in useful one day.

Minimum reserves are not without their critics inside the Bundesbank. They encourage banks to take business offshore. They have been largely responsible for the growth of Luxembourg, which like Britain does not impose reserve requirements, into a Euro-Domestic mark centre.

Yet an article in the Bundesbank's March monthly report underlined that most central banks have some sort of minimum reserve requirement, and not solely for historical reasons. The Belgian National Bank was given powers in 1988 to introduce such reserves, although it has yet to make use of them. The Bundesbank has suggested that minimum reserves could grow in importance if all European Community central banks adopt them as a policy instrument on the way to Monetary Union.

But the Bundesbank also pointed out that it has used minimum reserves far less frequently since the collapse of the Bretton Woods fixed exchange rate system in 1973, preferring to control the money market through open market operations.

In Germany, where minimum reserves can also be used as working balances by banks, falling reserve ratios in recent years have meant that reserve requirements nowadays total roughly the amounts that banks should hold in liquid form to be able to conduct business satisfactorily.

The penal non-interest bearing aspect of West Germany's

minimum reserves is offset by privileges given to the banking system such as subsidised rediscount facilities at the Bundesbank and the clearing, free of charge, of electronic fund transfers and other transactions through the Bundesbank.

Significantly, West Germany's minimum reserve ratios have stayed unchanged since February 1987 in spite of the strains imposed on monetary policy by the Louvre Accord, the October 1987 Wall Street Crash and the resurgence of inflation in the leading industrial countries.

The Bank of England has the power to introduce minimum reserve requirements in the form of special deposits from the banks, although such deposits bear interest. The official position, argued in the Government's Budget "Red Book", is that the Bank is better able to influence interest rates by varying the size of its market purchases of bills and by the weekly Treasury bill tender. Certainly the British authorities doubt whether minimum reserves requirements would have any salutary psychological effect on British banks and their borrowers.

Mr John Major, the Chancellor, was asked about credit growth and minimum reserves when he appeared before the House of Commons Treasury and Civil Service Committee.

Describing Britain's strong attachment to credit despite high interest rates as a "conundrum", he observed that £5 of extra income seems to become £25 of extra borrowing in the UK, whereas in other countries an additional £5 of income becomes £5 more savings.

It is doubtful whether minimum reserve requirements could change that state of affairs.

Peter Norman

IBM surprises Wall St with advance of 9%

By Martin Dickson in New York

INTERNATIONAL Business Machines yesterday announced first-quarter results far better than market expectations, with net earnings rising by 9 per cent. The figures, coming at the start of the corporate reporting season, gave a more optimistic tone to Wall Street and a substantial boost to share prices.

The world's largest computer maker said net earnings rose from \$500m in the first quarter of 1989 to \$507m in the initial three months of this year, on revenues up 11.4 per cent from \$12.7bn to \$14.2bn.

Earnings per share were up 12.4 per cent - helped by IBM's programme of repurchasing its stock - from \$1.61 to \$1.81. Wall Street analysts had pitched their earnings per share forecasts at around \$1.60, and in morning trading on the New York Stock Exchange IBM's shares rose sharply, to trade at around \$100% at mid-morning, up \$8%.

The figures helped counter the market's rather gloomy expectations of industrial America's first-quarter earnings and share prices in general rose.

However, analysts were awaiting the outcome of a briefing session with the company before deciding whether to increase their earnings forecasts for coming quarters.

In recent years IBM has faced slowing growth in its core mainframe business and strong competition from nimble rivals in the desktop computer market. Last year it reported a 35 per cent drop in net profits, to \$3.75bn, as it took a \$2.42bn restructuring charge and announced plans to shed 10,000 employees.

Mr John Akers, the chairman, said yesterday that the first quarter growth resulted from continued good demand across the company's product line. "Our strategy of listening to our customers and improving the competitiveness of our products and services is working."

A company representative said the advance had been spread across all geographical areas, with balanced growth in local currency terms. Last year saw only modest growth outside the US and little movement in US operations.

Revenues from sales in the quarter totalled \$8.8bn, up nearly 12 per cent from \$7.9bn, while those from support services were \$2.4bn against \$2.2bn, and from software \$2.05bn, up from \$1.95bn.

Costs and expenses were 8 per cent higher at \$12.05bn, but the company said its restructuring plan would only take effect in the second half of this year.

Hitachi buys California printer maker Dataproducts

By Our Financial Staff

DATAPRODUCTS, the US computer printer manufacturer, has agreed to a \$160m takeover by Hitachi, the Japanese electronics group.

Two companies in the Hitachi group, Hitachi Koki and Nissel Sangyo, are making a \$10 a share cash offer.

Dataproducts, based in California, has been fighting off hostile overtures from DPC Acquisition Partners for more than a year, and for much of 1989 had been actively seeking an acquirer. It took itself off the market in September, however, planning to cut costs and buy back shares.

The acquisition by Hitachi is significant because Japanese takeovers of US high-technology companies are rare - and controversial.

Dataproducts had once had a strong position in the US computer printer market, but had lost ground in the face of competition from Japan. It has been planning its hopes on a new solid-ink colour printer, due out this year, but dissident shareholders have criticised the cost of the project.

For the six months to September 23, 1989, Dataproducts lost \$7.66m on sales of \$163.3m, compared with a profit of \$1.85m on sales of \$173.6m a year before. In March, the company bought in 4m shares at \$10 each, an offer heavily oversubscribed. On Friday, the shares closed at \$6.4.

The deep troubles that B&C found in Atlantic

Terry Dodsworth and David Owen assess the problems

Atlantic Computers has always been destined to be the focus of attention when British & Commonwealth Holdings' full-year accounts are unveiled on April 26.

Since the decisions to buy the leasing group was made 22 months ago, analysts have hardly had a kind word to say about the \$207m (\$850m) purchase. After Atlantic contributed just \$2.7m to profits in the six months to June 30, gloom about B&C's prospects deepened. It was expected that the heavily-indebted financial services group would be forced to make substantial provisions for the unit in its forthcoming results.

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John Gunn: embarked on wide-ranging programme of disposals

To compound this squeeze on margins, the leasing companies have had to face an aggressive challenge in this field from International Business Machines, the world's leading manufacturer of large-scale computers.

IBM is the main supplier of machines for leasing. It also used to be a big lessor itself, but in the early 1980s it pulled back from this activity to concentrate more heavily on selling its machines. In the last two years or so, however, it has moved back strongly into leasing, causing howls of anguish throughout the industry.

At the same time, Atlantic has been hit by a series of negative changes in the computer leasing environment. Higher interest rates have adversely affected the company's financing and that of its customers. Profit margins have also been hit by the steady decline in the price of computer hardware, as competition in the manufacturing sector has increased and the cost of technology has fallen. This means that the residual values of the computers on which the leasing companies make their money once the leasing period is over have declined.

After the emergence of European Mezzanine Fund, which is one of a number of factors which suggest that mezzanine finance could be an important factor in the restructuring of some European companies in the approach to 1992.

However, the emergence of funds such as European Mezzanine Fund is one of a number of factors which suggest that mezzanine finance could be an important factor in the restructuring of some European companies in the approach to 1992.

The last thing B&C needs, as it grapples with its troubled subsidiary, is a sharp increase in the riskiness of the industry's basic business. Yet that is exactly what has happened, and the discussions now under way will establish just how serious a price it must pay for the decision to buy into computer leasing.

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Today: UK Confederation of British Industry/Financial Times survey of distributive trades for March. US consumer prices (0.2 per cent), capacity utilisation (82.2 per cent) housing starts, industrial production (0.3 per cent), building permits, real earnings. France, consumer price inflation (0.2 per cent, month-on-month, 3.3 per cent year-on-year), Japan, money supply for March (11.5 per cent).

Wednesday: UK index of the output of the production industries for February (flat). Manufacturing output (0.1 per cent). Unit wage costs in manufacturing for February (6.1 per cent). Provisional retail sales for March. Speech by Lord Caine, the paymaster general, on public procurement, organised by the National Economic Development Office. Housing and construction statistics. Canada, preliminary merchandise trade balance for February (\$325m). Switzerland, balance of trade for February. Australia, retail trade for February.

Thursday: UK public sector borrowing requirement for March. Fourth quarter institutional investments. West Germany, Bundesbank regular fortnightly council meeting.

Friday: US federal budget (\$40bn). Japan, personal consumption and income. Canada, consumer price index for March (0.4 per cent) and year-on-year (5.3 per cent).

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US MONEY AND CREDIT

Prices drift lower after bad auction

DISTURBED by the Government's second bad auction of 40-year bonds but ignoring the big drop in oil prices, US credit-market prices drifted a little lower in last week's hold-shortened trading.

The market resistance that the Resolution Funding Corporation (Refcorp) is finding for such an extended maturity triggered a spate of criticism and suggestions about how this new government agency should raise money to bail out insolvent savings and loan associations.

Tuesday's difficult auction of \$3.5bn of 40-year Refcorp bonds was a further reminder of the enormous havoc the thrift crisis is wreaking on the US financial system.

More evidence came on Wednesday. The Resolution Trust Corporation, the sister agency which actually handles the bombed-out thrifths, said it would need to raise \$45.3bn of working capital from the markets via the Treasury in the three months ending June.

This caused quite a lot of consternation among market participants because it implied a lot more debt in the second quarter, says Ms Maria Florio Ramirez, head of Maria Ramirez Capital Consultants.

It was only 18 years ago that the total federal government budget deficit for a full year was \$45.2bn. With the two thrift agencies displaying such a voracious appetite for money, the market was understandably apprehensive ahead of Refcorp's auction.

Moreover, the precedent was bad. Its previous effort this year to sell the first 40-year government bonds since the 1950s was an utter debacle. Demand was meagre and the

high yielding bonds dragged up yields on Treasury securities.

On the face of it, conditions were more favourable for this second trip to the market. Yields were higher, the spread over 30-year Treasuries bigger, the amount smaller and the timing better than for the first.

But the results were not much better. The average yield for the \$3.5bn of bonds was 8.89 per cent, higher than expected, and Refcorp had to accept bids up to 8.94 per cent to sell the lot.

Though the bidding was unaggressive, at least the demand was a bit better. Bids totalled \$3.8bn compared with \$3.16bn worth of bonds the first time. It is still not good enough, considering Treasury auctions usually enjoy three-fold cover.

The basic problem is that few investors are interested in 40-year obligations. It was hoped originally that some big institutional investors would want them to match long-term obligations such as pensions. That demand has failed to materialise from the foul winds of the Refcorp auction and for the Refcorp/treasury yield spread to widen somewhat.

Otherwise, Refcorp will still have a problem raising money. It has two main options, says Griggs and Santow. It can return to 30-year bonds which it sold quite well at its first auction. Or, if it insists on sticking with a 40-year maturity, it should organise a selling syndicate of dealers. Other government agencies have done so successfully for years and it would save the Government money compared with the cost of an auction.

All this makes for a heavily dealer-oriented auction with little evidence of true investor appetite for the paper. Part of

Further reminders of finan-

cial debacles also popped up last week in the corporate side of the market, in the junk bond sector. Amoco Department Stores turned in a much larger than expected loss for last year because sales at the Zaire discount stores it bought in 1988 dropped 16 per cent.

Setting another disaster in the stores sector to accompany the Campbell collapse which routed junk bonds earlier this year, the market knocked some 12 points off the price of Amoco's 18 per cent senior reset notes and issued from other retailers.

Worse, investors worry that Refcorp might swamp the market during its lifetime. The thrift crisis deepens almost daily, with the cost of the bailout rising to some \$50bn and losses from other retailers.

Opinions differ on the impact of the Refcorp bonds on the Treasury market. Griggs and Santow, the firm of money market economists, believes they will continue to drag down the long end of Treasury bonds as they have after previous auctions.

Smith Barney argues, however, that investors will differentiate between the two issuers. "In the weeks ahead, we expect to see the Treasury market recover from the foul winds of the Refcorp auction and for the Refcorp/treasury yield spread to widen somewhat."

Either way, Refcorp will still have a problem raising money. It has two main options, says Griggs and Santow. It can return to 30-year bonds which it sold quite well at its first auction. Or, if it insists on sticking with a 40-year maturity, it should organise a selling syndicate of dealers. Other government agencies have done so successfully for years and it would save the Government money compared with the cost of an auction.

"Moreover, it seems to be shifting almost daily" in its opinion of how to respond.

Roderick Oram

Japanese acquisitions increase by 33% to 740

THE number of Japanese mergers and acquisitions jumped by 33 per cent in the year to March 31, 1990, to a record 740 cases, according to Yamaichi Securities, Reuter reports from Tokyo.

Purchases overseas accounted for 448 of the total, up from 334 in the previous year. There were 236 in North America against 163 in 1988/89, 114 in Europe against 63 a year

ago, 73 in Asia and Oceania, down from 86, and 35 compared with 22 in remaining countries, said Mr Kiyoshi Watari, deputy general manager of the mergers and acquisitions strategy department at Yamaichi Securities.

The number of overseas companies buying up Japanese concerns, however, remained unchanged from the previous year at 14.

US MONEY MARKET RATES (%)					
	Last Friday	1 week ago	4 weeks ago	12-month ago	High
Fed Funds Policy rate (%)	8.12	8.25	8.30	9.02	9.00
One-month Treasury Bills	8.05	8.15	8.20	8.37	8.30
Three-month prime CDs	8.35	8.70	8.85	10.35	9.00
30-day Commercial Paper	8.25	8.50	8.65	9.95	8.05
90-day Commercial Paper	8.37	8.57	8.65	10.05	8.10

US BOND PRICES AND YIELDS (%)					
	Last Fri.	Change in pt	Yield	1 week ago	4 wks ago
Seven-year Treasury	97.5	New issue	8.65	8.60	8.65
20-year Treasury	102.8	+1.2	8.74	8.65	8.75
30-year Treasury	107.4	+0.6	8.85	8.85	8.85

Money supply: In the week ended April 2, M1 rose \$3.4bn to \$804.5bn.

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INTERNATIONAL COMPANIES AND FINANCE

Three large US banks slide in first quarter

By Martin Dickson in New York

THREE OF the largest US banks yesterday reported first-quarter falls in earnings, hit variously by the troubled real estate market, the slowing of domestic corporate finance activities and reduced interest income from Latin American loans.

Chase Manhattan, the third largest bank, saw first-quarter net income tumble from \$1.22m to \$44m, with earnings per share down from \$1.27 to 20 cents.

Net income was hit by a \$75m increase in provision for credit losses, which the bank said was mainly due to the potential impact of the deterioration in the US commercial real estate market.

Net interest revenue was \$814m against \$828m a year ago, mainly reflecting lower interest payments from Brazil,

though this was largely offset by higher spreads and volumes on consumer banking assets.

The provision for possible credit losses was \$225m, compared with \$150m in the first quarter of 1989 and \$130m in the fourth quarter. The group warned that if economic conditions in domestic commercial real estate markets deteriorated further, it was likely that provisions for credit losses would continue at relatively high levels.

J.P. Morgan, the fourth largest US bank, saw a dip in underlying profits, although its consolidated net income rose to \$26m in the first quarter, compared to \$18m in the same period of 1989.

However, \$23m of the rise was due to an after-tax addition to income because of a change in accounting for trad-



Dennis Weatherstone: pleased with strong trading results

ing swaps. Excluding this figure, income dropped from \$160m to \$165m and earnings per share were down from 96 cents to 86 cents.

Manufacturers Hanover reported first-quarter net income of \$96m, down from

1989, and net income per share of \$1.21 against \$1.84. Mr John McGillicuddy, the chairman, said that "net income from non-performing loans to major refinancing countries was \$18m less than in the previous year's quarter, masking earnings improvements in other fees and equity sales."

Net interest revenue fell 11 per cent to \$285m, primarily because the group received no interest on Brazilian medium and long-term loans in the quarter. Mr Dennis Weatherstone, the chairman, said the company was pleased with the strong trading results and continued growth of business activities with relatively steady revenue streams.

Manufacturers Hanover reported first-quarter net income of \$96m, down from \$103m in the first quarter of 1989, and net income per share was \$1.21 against \$1.84. Mr John McGillicuddy, the chairman, said that "net income from non-performing loans to major refinancing countries was \$18m less than in the previous year's quarter, masking earnings improvements in other fees and equity sales."

Net interest revenue was \$276m against \$297m, but non-performing loans in Brazil and Argentina, along with the Mexican debt restructuring agreement, cut \$72m off the figure against \$43m in 1989.

Non-interest revenue was \$20m compared to \$31m, with trading account profits up from \$23m to \$24m but loan syndication fees down from \$7m to \$1m. Charge-offs against problem domestic loans dropped from \$95m to \$73m.

Primerica up despite troubles on Wall Street

By Martin Dickson

PRIMERICA, the US financial services conglomerate, yesterday announced first-quarter net income of \$83.2m, up from \$51.4m in the same period of 1989.

The figures, achieved despite the turmoil and poor trading environment on Wall Street, included first-quarter net earnings of \$1.1m in revenues of \$384m from Smith Barney, the broking house. Last year's earnings of \$1.1m came on revenues of \$290.6m.

Primerica said that Smith Barney's figures reflected good performance in most businesses, particularly retail brokerage, asset management and investment banking.

The group saw earnings per share rise 38 per cent to 73 cents a share, up from 53 cents, while revenues totalled \$1.44m against \$1.24m.

Mr Marc Asua, chairman, said the group had spent the year consolidating its positions after several years of fast expansion. Profits had been reduced by around FFr30m by the costs of starting up several new factories and of launching new products, especially carpet tiles.

The group had also had to restructure some of its recent acquisitions, which included Triangel in West Germany, Milliken Somer in the US and Domco in Canada.

Sommer Allibert's main division, supplying plastic components and floor coverings primarily to the motor industry, increased sales by 9 per cent to FFr3.6bn. The group will open

Sommer Allibert slips after year of consolidation

By George Graham in Paris

SOMMER Allibert, the leading French plastic products group, has reported a 4 per cent drop in net profits last year to FFr320m (\$37m), on sales 8 per cent higher at FFr3.4bn.

Mr Marc Asua, chairman, said the group had spent the year consolidating its positions after several years of fast expansion. Profits had been reduced by around FFr30m by the costs of starting up several new factories and of launching new products, especially carpet tiles.

The group had also had to restructure some of its recent acquisitions, which included Triangel in West Germany, Milliken Somer in the US and Domco in Canada.

Sommer Allibert's main division, supplying plastic components and floor coverings primarily to the motor industry, increased sales by 9 per cent to FFr3.6bn. The group will open

a new West German factory in the second half of this year, giving it its first big link with motor company Volkswagen.

It has also formed a joint venture in Italy, which is expected to put it in a position to supply Fiat for the first time.

The group increased its sales of floor and wall coverings by 9 per cent to FFr3.5bn, while the garden furniture and bathroom equipment division saw sales stagnate at FFr1.4bn.

Sommer Allibert has set up a joint venture with Société Générale, the commercial bank, with capital of FFr400m. The joint venture will take equity stakes in both companies as a defensive measure against possible takeovers.

While the joint venture's stake in Société Générale will be tiny, in Sommer Allibert it could represent around 5 per cent of the company's capital.

Finansbank moves into Switzerland via takeover

By Jim Bodgeman in Ankara

TURKEY'S Finansbank, one of a new generation of small, aggressive institutions, has acquired a majority interest in PBZ Privatbank Geneva from PBZ Privatbank Zurich, following approval by the Swiss Federal Banking Commission.

This is the first such Turkish bank with a presence in Switzerland, there are avenues for a correspondent relationship with nine other Turkish banks.

The two-year-old Swiss bank is at present a moribund institution with a capital of around SF2.2m (\$1.3m).

Finansbank now holds 82 per cent of the share capital, while the remainder has been acquired by BDL Banco di Lugano, a wholly-owned subsidiary of Union Bank of Switzerland.

Although Privatbank was making losses, half of its balance sheet was capital because it had not done any business, say banking sources. Finansbank hopes to bring it back into profit by the third quarter.

The purpose of the deal is mainly to lock in Soviet and eastern bloc business, and give it participation in the Swiss market, where many Turkish concerns are established.

In addition, as the first Turkish bank with a presence in Switzerland, there are avenues for a correspondent relationship with nine other Turkish banks.

And there is the boon for the bank's customers of anonymity under Swiss banking law.

Finansbank is a commercial and merchant banking group established in Istanbul in 1987 by Mr Husnu Ozoguz, a well-known Turkish banker.

The institution recently listed its shares on the Istanbul Stock Exchange, and 10 per cent of its capital is held by the UK insurance company Commercial Union, with which it has an insurance joint venture in Turkey.

Upjohn advances by 11% after restructuring loss

By Karen Zagor in New York

UPJOHN, the US pharmaceuticals company, yesterday reported an 11 per cent advance in first-quarter net income to \$1.6m, compared with a gain of \$1.5m in 1989 or 59 cents a fully-diluted share, against net income of \$1.03m or 55 cents in 1988.

The company, which reported a sharp loss in the fourth quarter due to a one-time \$26m restructuring charge, said sales in the latest quarter increased 4 per cent to \$7.95m.

Operating income in the 1990 quarter grew 14 per cent to \$1.73m and amounted to 22 per cent of sales, compared with 20 per cent of sales the previous year.

Upjohn, which last year began phasing out its indus-

MGM/UA reports loss of \$9.8m

By Karen Zagor

MGM/UA, the Hollywood film and television studio which is the subject of a \$1.26bn tender offer by Pathé Communications, yesterday reported a net loss of \$9.8m or 19 cents a share for the second quarter of 1990, compared with a loss of \$4.7m or 28 cents a year earlier.

Revenues for the three months ended February 1990 include a net loss of \$1.9m from MGM/UA.

For the first half, the company had a net loss of \$11.9m or 23 cents a share, against a net loss of \$5.2m or \$1.08 in 1989.

Revenues in the 1990 period include a gain of \$1.6m or 3 cents a share from the early repayment of debt.

Revenues in the latest period slipped to \$388.3m from \$412.2m.

MGM/UA, whose 1,000-title UA Library includes the James Bond, Pink Panther and Rocky movies, is being acquired by Mr Giancarlo Parretti, an Italian financier who last year took over Cannon Pictures and renamed it Pathé after he and his wife bought it from Cannon.

Turnover from core operations was FFr 2.8bn, a gain of around 36 per cent on the 1988 figure.

A MGM representative said the closing of the deal is slated for April 30.

Fokker rise partly due to cut in financing charges

POKKER, the Dutch aerospace group, has unveiled a sharp increase in profits for the year, largely because of decreased financing charges in 1990. The group lifted net profit in 1990 to FFr 14.24m (\$22.6m) from FFr 12.3m (\$18.2m) in November 1989 which were at interest rates that were low compared to the current interest rate environment, the representative noted.

In addition, he indicated that the company had enough cash on hand to expand capacity of aircraft production lines, which would help ease the burden of joint production of two new aircraft types, the Fokker 100 and the Fokker 50.

Now Fokker has FFr 10bn in outstanding orders and its production facilities are booked until the end of 1994.

The company noted that its net profit picture for 1990 was considerably improved by a reduction in financing charges to FFr 55m from FFr 64m in the year before.

Fokker's participating interests in other companies also contributed higher revenues of FFr 15.9m, compared with FFr 15.3m last time.

Turnover from core operations was FFr 2.8bn, a gain of around 36 per cent on the 1988 figure.

A Fokker representative said the closing of the deal is slated for April 30.

Donohue hit by hard discounting

DONOHUE, a Quebec forest products company controlled by Montreal publisher Mr Pierre Paladean and British publisher Mr Robert Maxwell, has omitted a dividend by the year-end.

Despite the improved results, Fokker is to omit a dividend for the year, saying that "In view of the still modest result, the board of management has decided, with the approval of the supervisory board, to add the entire profit to reserves. No dividend will therefore be paid."

Fokker last paid a dividend in 1988. In 1987, its severe losses meant it had to be bailed out by the Dutch Government.

Turnover from core operations was FFr 2.8bn, a gain of around 36 per cent on the 1988 figure.

A Fokker representative said the closing of the deal is slated for April 30.

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Abbreviations: (a) Free rate; (b) Bankrate rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (g) Exports; (h) Non-commercial rate; (i) Business rate;

(j) Buying rate; (k) Luxury good; (l) Market rate; (m) Official rate; (n) Preferential rate; (o) Export-import rate; (p) Parallel rate; (q) Selling rate; (r) Tourist rate; (s) Currencies fixed against the US Dollar;

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UK COMPANY NEWS

Axa and Hoylake ask for time to modify transaction

By David Owen

AXA MIDI Assurances and Sir James Goldsmith's Hoylake Investments consortium yesterday requested a continuance of no more than 60 days in deliberations in six US states on the bid for Farmers Insurance so that "modifications" can be made to the offer.

The applications for continuances will ask that records of proceedings remain open until the two groups submit their modifications for consideration. "We are simply asking for time to structure the transaction in a way that will meet regulatory approval," said Mr Claude Bebear, Axa chairman

and chief executive. Axa has been lined up by Hoylake as the purchaser of Los Angeles-based Farmers should Hoylake make a successful bid for its parent, BAT Industries.

However, Hoylake - having lapsed its initial offer - cannot currently rebid for BAT until this arrangement has won approval from nine state insurance departments. California, the first to rule, denied application from both Hoylake and Axa last week. Idaho is the next state expected to rule. The Illinois record is due to close on May 2.

According to Mr Bebear, "after closer inspection of the California decision, we feel confident Axa can find solutions to the regulators' objections on the financing plan."

"California's ruling found that we are qualified to own Farmers," he added. "This is a major positive step in the right direction. We are dedicated to relentlessly pursuing our bid for Farmers within the regulatory process in the US."

Motions for continuance were filed in Illinois and Idaho yesterday. Similar applications are to be filed in Oregon, Washington and California.



Sir James Goldsmith

GrandMet completes sale of 356 Wimpy outlets

By David Owen

GRAND METROPOLITAN, the UK food and drinks group, has completed the sale of 356 Wimpy fast food restaurants to a management group for an undisclosed sum believed to be about £20m.

The company acquired the operations last year from United Biscuits. The outlets, which comprise 216 mainly franchised UK table service restaurants and 140 overseas units, are considered unsuitable for transfer into the Burger King operation acquired in the Pillsbury takeover in 1988.

GrandMet is retaining 160 counter service units which are already being converted to the Burger King brand.

Mr Max Wolfenden, head of the management group and Wimpy's former managing director, said that he would like to see the size of the Wimpy table service operation double in the next five years. This would entail investment of some £40m, primarily using franchisees' capital, he added.

The buyout was funded by a syndicate led by St. James venture capital group.

Tate and Booker free of theme park exposure

By Clay Harris, Consumer Industries Editor

TATE & LYLE, the sweeteners group, and Booker, the diversified agribusiness company, say they have no financial exposure to Gold Rush City, a proposed Californian theme park, for which Tate & Lyle Enterprises, a subsidiary of their Booker Tate joint venture, was committed to seek third-party finance for the venture, if it lived in this role, the only loss would be forgone fees, Tate added.

"Neither Tate & Lyle nor Booker is intending to put any money into this theme park," Tate said. "It is a management job, not a banking job," it said.

Chartered Trust drops to £22.5m

By Anthony Moreton, Welsh Correspondent

HIGH INTEREST rates which have seriously affected the profits of the finance houses have also taken their toll at Chartered Trust, the fully-owned subsidiary of Standard Chartered Bank.

Pre-tax profit for 1989 dropped 4.3 per cent from £23.5m to £22.5m.

Chartered Trust has, though, emerged from the year rather less severely mauled than some of its competitors. Merchant Credit, the Barclays Bank offshoot, saw its profits tumble by almost half from £93m to £45m and Forward

Assets rose by 17.3 per cent to £1.5bn.

Mr Tony Webb, managing director, described the result as "remarkably good considering the conditions. With over 60 per cent of our lending at fixed rates and rising interest rates over the second half of last year we had a difficult year and the results show how well we managed the situation," he said.

Just over half of Chartered's assets come from its motor business but Mr Webb wants to see the personal finance side, which accounts for about 10 per cent, built up. "We would like to build this base because it is more remunerative and gives us greater opportunities for cross-selling," he stated.

Assets rose by 17.3 per cent to £1.5bn.

Mr Jonathan Taylor, Book-

er's chief executive, agreed categorically in almost exactly the same words, adding Booker Tate to the list of parties which had no intention of investing in Gold Rush City.

Although Tate & Lyle Enterprises was committed to seek third-party finance for the venture, if it lived in this role, the only loss would be forgone fees, Tate added.

"Neither Tate & Lyle nor Booker is intending to put any money into this theme park," Tate said. "It is a management job, not a banking job," it said.

Greenall may dispose of its breweries

By Bernard Simon in Toronto and David Owen in London

JOHN LABATT, the Canadian brewing and foods group, yesterday confirmed that it was in talks with Greenall Whitley regarding the acquisition of the brewing and hotels group's two breweries but said that no deal was imminent.

"The two sides will file briefs today in Norton's appeal against a lower court ruling last Wednesday that the company must hold its annual meeting on April 26, rather than postpone it for two months as it had wished.

The two groups have had links since reaching a production and distribution agreement for Labatt lager three years ago.

Greenall last week announced the sale of the marketing rights of Vladivar vodka - the vodka from Warwick - to Whyte & Mackay, the Scotch whisky distiller, for £33m.

Consumer downturn puts Gaynor in red

The marked downturn in consumer spending unveiled yet another casualty in Geynor Group, which manufactures polythene bags, sheeting and film.

The USM-quoted group incurred a loss of £257,000 in the half-year to end-February, against profits of £300,000 last year.

Directors of the Manchester-based group blamed the outcome on a "poor" operating performance, combined with "difficult market conditions" experienced by the high street chains, its main customers.

In addition, a sizeable contract for high density carrier bags proved to be "very unprofitable" and has ceased.

Turnover in the half-year under review slipped some 16 per cent to £3.81m (£4.53m). Losses per 10p share emerged at 7.4p, against earnings of 3.7p and there is no interim dividend (1.2p).

DEVELOPMENT CAPITAL Corporation has conditionally

Appeal decision in Norton/BTR battle expected Thursday

By Karen Zagor in New York

A US APPEALS court decision is expected on Thursday in the takeover battle between BTR and Norton Company, the Massachusetts-based abrasives and ceramics manufacturer.

The two sides will file briefs today in Norton's appeal against a lower court ruling last Wednesday that the company must hold its annual meeting on April 26, rather than postpone it for two months as it had wished.

The Massachusetts legislature meets today, and is considering speedy passage of a bill which would limit the proportion of a company's board that could be elected in any one year to one-third.

The legislation has an emergency preamble, so it becomes effective once Mr Michael Dukakis, the Massachusetts governor, signs it.

Existing state law allows directors to reject an offer if there is concern that it might harm local communities.

COMPANY NEWS IN BRIEF

ABERDEEN PETROLEUM is acquiring a 71 per cent interest in the Patricia-Gas Unit from Amoco Canadian Petroleum for \$64.3m cash (£2.26m).

CAPF has bought Thermo Acoustic Products and the business and certain assets of EchoStop Systems from John Brown, part of Trafalgar House, for £8.1m cash. Both acquired companies make ceiling tiles and have net tangible assets of about £4.33m including freehold properties of £1.4m.

COS GROUP has completed the acquisition of the outstanding 50 per cent of CCS Plasters (Southern) owned by Tived Group. It has paid £375,000 cash, £120,000 for the 60 per cent interest and £120,000 for debts.

Also acquiring C.R.B. Double Glazing for an initial £40,000 in cash and shares, and up to maximum £250,000 depending on profits to March 31, 1992. Ripple makes security show cabinets for retail businesses.

LOVELL (GF) has agreed to acquire a 20.7 per cent share stake in Dennis Rubson, tile maker for £270,000 in shares.

NSB has acquired Copland, a distributor of air conditioning and refrigeration equipment for about £900,000, part in shares and the balance in cash.

SKETCHLEY: Compass Group has received acceptances in respect of 599,117 Sketchley ordinary (£1.65 per cent). The offer is extended to April 23.

TAKARE has agreed with the Chester Health Authority to build and operate a 90-bed residential nursing home. The contract is worth about £12m at 1990 prices and will run for at least 10 years.



A Norton Company employee protests against BTR's hostile takeover at a meeting held at Worcester, Massachusetts.

TAMS (JOHN) has bought the factory, plant and machinery and stock of Norwich Pottery, bone china maker, for £1.2m in 1.4m shares, which will be placed with institutions.

TE FAR EAST Income Trust had a net asset value of \$8.15p (£5.83p) at February 28. Net revenue for the six months was £1.73m (£299,000) after tax of £366,000 (£327,000). A second interim of 1p (£0.67p adjusted) is being paid. Earnings were 3.71p (3.71p).

TRAILER LLOYD has paid an initial £4.1m for the plating division of Manchester Plastics, a Canadian subsidiary of Larizza Industries. A further deferred £1.7m is due in 21 months time. It makes injection moulded exterior plastic trim for the car industry.

UNIDARE is to acquire Southborough International, leading maker of precision sheet metal products in Ireland. Pre-tax profit for the year ended August 31 last was £131,000 (£104,000) or £0.50p. Consideration is an initial £1.35m, with a possible further maximum of £3.65m.

WDNFS is to sell its Eurocraft subsidiary for £20.00 cash. Enclosures will repay Eurocraft's bank overdraft, expected to be about £2m.

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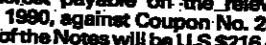
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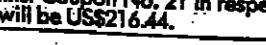
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OPERATING RESULTS

Quarter ended	31.3.1990	31.12.1989
Gold produced (kg)	2,000,000	2,000,000
Gold produced (kg)	7,249	7,257
Revenue (R1 million)	10,625	10,625
Cost (R1 million)	10,611	10,611
Profit (R1 million)	56.77	53.04
Gold price received (R1/kg)	53.77	53.77
Profit after taxation and State's share of profit	33,681	33,681
Profit before taxation and State's share of profit	33,681	33,681
Capital expenditure	£2,000	£2,000
Dividend declared	£0.00	£0.00
Dividend paid	£0.00	£0.00
Dividend paid per share	50 cents per share was declared on 12 March 1990 payable on or about 4 May 1990 to shareholders registered at the close of business on 30 March 1990.	50 cents per share was declared on 12 March 1990 payable on or about 4 May 1990 to shareholders registered at the close of business on 30 March 1990.
Capital expenditure	£0.00	£0.00
There are no commitments for capital expenditure for the remainder of the current financial year to R11.5 million.		
Capital expenditure	£0.00	£0.00
Dividend declared	£0.00	£0.00
Dividend paid	£0.00	£0.00
Div		

UK COMPANY NEWS

Shandwick wins Northern Ireland IDB account

By Alice Rawsthorn

SHANDWICK, the world's largest public relations consultancy, has been appointed by the Industrial Development Board of Northern Ireland to handle its international public relations programme.

The IDB account, which will be worth £2.5m in fee income to Shandwick in the first year alone, is thought to be one of the biggest International PR accounts.

Until recently public relations programmes, unlike advertising campaigns, have tended to be small in scale and to be limited to local markets.

A typical account is probably worth less than £50,000 a year in fees for the consultancy.

In the past year a number of private and public sector organisations have developed international strategies for public relations. This development has been accompanied by

NEWS DIGEST

Second tranche for Wisley Golf

FOLLOWING THE success of the first offer for sale of units in the Wisley Golf Club, James Capel is to offer a second tranche of a further 125 units with a value of some £4m.

The initial issue of 100 units at £26,275 was oversubscribed. The price for the second issue has been set at £21,300 per unit (£30.00 a share, £1,000 a debenture plus stamp duty and VAT). Subject to committee approval, purchase of a unit affords membership for the shareholder or a nominee.

Cambridge Isotope tumbles to \$0.37m
Pre-tax profits dived to \$36.226 (222,000) at Cambridge Isotope

Laboratories, the Massachusetts-based producer of stable isotopes, for the year to November 30 1989. The previous figure was \$1.03m.

Although turnover rose to \$5.65m (£5.58m), interest income fell from \$68,581 to \$13,118 and there was a net loss of \$162,225 (nil) plant start-up cost.

VTR records 16% growth to £601,000

VTR, the USM quoted video editing and audio-visual house, reported a 16 per cent growth to £601,000 in interim profits.

The outcome before tax for the six months to February 28, compares with profits of £500,000 last time and came from turnover ahead some 43 per cent to £2.71m (£1.9m).

An interim dividend of 1.1p (1p) is payable from earnings of 59 (4.8p) per 5p share.

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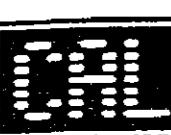
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IMI in £9.25m expansion

By Nikki Tait

IMI, the UK metals group which specialises in building products, drinks dispensing equipment and fluid power, has acquired MKR Group from Charter Consolidated for £9.25m payable in cash.

Shandwick will handle the account through its subsidiaries in the US, Europe and in the Asia Pacific region including Japan. Burson-Marsteller will continue to work on the account in South Korea.

In recent years Shandwick has expanded rapidly by staging a series of acquisitions. It has assembled an international network of PR consultancies by buying businesses across Europe, North America and the Pacific Basin.

Shandwick won the IDB account after a competitive pitch against four other consultancies including Burson-Marsteller, the PR division of Young & Rubicam, the privately-owned US marketing group which has handled the account for four years.

The other consultancies

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FINANCIAL TIMES STOCK INDICES

	Apr 12	Apr 11	Apr 10	Apr 9	Apr 6	Apr 5	High 1990	Low	Size Compiling
Government Secs.	76.31	76.70	76.67	77.20	77.45	77.64	84.20	75.91	127.4
Fined Interest	86.65	85.76	85.96	86.00	86.32	86.53	92.71	85.12	105.4
Ordinary	1741.0	1733.3	1732.3	1742.3	1740.2	1756.3	1968.3	1732.3	2008.6
Gold Mines	248.8	249.0	254.8	257.4	256.0	258.0	378.5	248.8	435
FT-All Share	1101.24	1098.61	1099.42	1105.03	1103.10	1110.93	1228.57	1098.61	61.92
FT-SE 100	2222.1	2235.5	2217.5	2227.7	2221.1	2239.5	2453.7	2215.5	2463.7
									986.9

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MONEY MARKETS

Sterling's large political factor

Sterling has a fragile look. It has failed to gain advantage from the weakening of the yen and has lost ground against the D-Mark in spite of inflationary worries about German monetary union.

Since the end of February the pound has climbed to Y260 from Y251.50; over the same period it has fallen to DM2.7475 from DM2.8675. Sterling

Conservative Party to prove that the fabric of British society is not wearing thin and that there is still time to turn unfavourable opinion polls in its favour by the next general election, due in 1992 at latest.

The Government is only likely to raise bank base rates if sterling comes under severe pressure but, equally, there is unlikely to be a cut until the latter part of this year.

In this uncertain world, there is an obvious danger that UK rates might be moving down at a time when US and German rates are going up, and the best hope for sterling is that the political situation is by then moving in favour of the Government.

Political risk has been a large factor in the pound's recent fall and if the market sees that lower interest rates are increasing the Conservative's popularity sterling could still benefit, despite lower rates.

UK clearing bank base lending rate

15 per cent

from October 5

has also lost some 5 cents against the dollar since the end of February and the exchange rate index has fallen from 90.0 to 87.0.

Political events will decide whether the pound weakens further. The foreign exchange market does not like to see the recent political uncertainty in the UK. It now is the considerable task of the ruling

C IN NEW YORK

Apr.12	Close	Previer Close
1 Spot	1,6410 - 1,6440	1,6420 - 1,6440
1 month	1,6585 - 0,9740	1,6580 - 0,9740
3 months	1,6725 - 0,9450	1,6720 - 0,9450
12 months	1,6875 - 0,9450	1,6870 - 0,9450

Forward premiums and discounts apply to the US dollar.

STERLING INDEX

Source: London Stock Exchange

Forward premiums and discounts apply to the US dollar.

CURRENCY RATES

Apr.12	Bank of England Rate \$/	Social* Currency Rights	European Central Bank Currency Unit
U.S. Dollar	0.734967	0.742216	0.742216
Canadian \$	1.2515	1.2515	1.2515
Austrian Sch.	1.32	1.32	1.32
Austrian Franc	45.212	45.212	45.212
Danish Krone	1.05	1.05	1.05
Swiss Franc	1.208	1.208	1.208
North. Guilder	7.00	7.00	7.00
French Franc	19.48	19.48	19.48
Potkin Lira	8	8	8
Japanese Yen	205.68	205.68	205.68
Harvey Krone	1.9304	1.9304	1.9304
Swiss Franc	1.208	1.208	1.208
Swedish Krona	1.12	1.12	1.12
Swiss Franc	1.208	1.208	1.208
Gold	340.00	340.00	340.00
Iraqi Dinar	N/A	N/A	N/A
U.A.E.	0.762545	0.762545	0.762545

* All SFR rates are for Apr.11.

Source: London Stock Exchange

CURRENCY MOVEMENTS

Apr.12	Day's spread	Close	One month	%	Three months	%
1	1.6410 - 1.6420	1.6415 - 1.6425	0.89-0.90c/pmt	0.3%	2.64-2.65c/pmt	0.3%
1 month	1.6585 - 0.9740	1.6605 - 0.9750	0.53-0.71c/pmt	1.7%	2.65-2.71c/pmt	1.6%
3 months	1.6725 - 0.9450	1.6825 - 0.9450	0.55-0.60c/pmt	1.6%	2.68-2.70c/pmt	1.6%
12 months	1.6875 - 0.9450	1.6975 - 0.9450	0.55-0.60c/pmt	1.6%	2.68-2.70c/pmt	1.6%

Forward premiums and discounts apply to the US dollar.

OTHER CURRENCIES

Apr.12	E	S
Australia	2.1425	2.1425
Austria Sch.	15.9901	14.3715
Belgian Franc	45.2913	45.2828
Danish Krone	1.05	1.05
Swiss Franc	1.208	1.208
North. Guilder	7.00	7.00
French Franc	19.48	19.48
Potkin Lira	8	8
Japanese Yen	205.68	205.68
Harvey Krone	1.9304	1.9304
Swiss Franc	1.208	1.208
Swedish Krona	1.12	1.12
Swiss Franc	1.208	1.208
Gold	N/A	N/A
U.A.E.	0.762545	0.762545

Source: London Stock Exchange

THREE-MONTH EURODOLLAR INDEX

Latest	High	Low	Prev.
Jan 1989	1.2000	1.1900	1.1900
Feb 1989	1.2000	1.1900	1.1900
Mar 1989	1.2000	1.1900	1.1900
Apr 1989	1.2000	1.1900	1.1900
May 1989	1.2000	1.1900	1.1900
Jun 1989	1.2000	1.1900	1.1900
Jul 1989	1.2000	1.1900	1.1900
Aug 1989	1.2000	1.1900	1.1900
Sep 1989	1.2000	1.1900	1.1900
Oct 1989	1.2000	1.1900	1.1900
Nov 1989	1.2000	1.1900	1.1900
Dec 1989	1.2000	1.1900	1.1900
Jan 1990	1.2000	1.1900	1.1900
Feb 1990	1.2000	1.1900	1.1900
Mar 1990	1.2000	1.1900	1.1900
Apr 1990	1.2000	1.1900	1.1900
May 1990	1.2000	1.1900	1.1900
Jun 1990	1.2000	1.1900	1.1900
Jul 1990	1.2000	1.1900	1.1900
Aug 1990	1.2000	1.1900	1.1900
Sep 1990	1.2000	1.1900	1.1900
Oct 1990	1.2000	1.1900	1.1900
Nov 1990	1.2000	1.1900	1.1900
Dec 1990	1.2000	1.1900	1.1900
Jan 1991	1.2000	1.1900	1.1900
Feb 1991	1.2000	1.1900	1.1900
Mar 1991	1.2000	1.1900	1.1900
Apr 1991	1.2000	1.1900	1.1900
May 1991	1.2000	1.1900	1.1900
Jun 1991	1.2000	1.1900	1.1900
Jul 1991	1.2000	1.1900	1.1900
Aug 1991	1.2000	1.1900	1.1900
Sep 1991	1.2000	1.1900	1.1900
Oct 1991	1.2000	1.1900	1.1900
Nov 1991	1.2000	1.1900	1.1900
Dec 1991	1.2000	1.1900	1.1900
Jan 1992	1.2000	1.1900	1.1900
Feb 1992	1.2000	1.1900	1.1900
Mar 1992	1.2000	1.1900	1.1900
Apr 1992	1.2000	1.1900	1.1900
May 1992	1.2000	1.1900	1.1900
Jun 1992	1.2000	1.1900	1.1900
Jul 1992	1.2000	1.1900	1.1900
Aug 1992	1.2000	1.1900	1.1900
Sep 1992	1.2000	1.1900	1.1900
Oct 1992	1.2000	1.1900	1.1900
Nov 1992	1.2000	1.1900	1.1900
Dec 1992	1.2000	1.1900	1.1900
Jan 1993	1.2000	1.1900	1.1900
Feb 1993	1.2000	1.1900	1.1900
Mar 1993	1.2000	1.1900	1.1900
Apr 1993	1.2000	1.1900	1.1900
May 1993	1.2000	1.1900	1.1900
Jun 1993	1.2000	1.1900	1.1900
Jul 1993	1.2000	1.1900	1.1900
Aug 1993	1.2000	1.1900	1.1900
Sep 1993	1.2000	1.1900	1.1900
Oct 1993	1.2000	1.1900	1.1900
Nov 1993	1.2000	1.1900	1.1900
Dec 1993	1.2000	1.1900	1.1900
Jan 1994	1.2000	1.1900	1.1900
Feb 1994	1.2000	1.1900	1.1900
Mar 1994	1.2000	1.1900	1.1900
Apr 1994	1.2000	1.1900	1.1900
May 1994	1.2000	1.1900	1.1900
Jun 1994	1.2000	1.1900	1.1900
Jul 1994	1.2000	1.1900	1.1900
Aug 1994	1.2000	1.1900	1.1900
Sep 1994	1.2000	1.1900	1.1900
Oct 1994	1.2000	1.1900	1.1900
Nov 1994	1.2000	1.1900	1.1900
Dec 1994	1.2000	1.1900	1.1900
Jan 1995	1.2000	1.1900	1.1900
Feb 1995	1.2000	1.1900	1.1900
Mar 1995	1.2000	1.1900	1.1900
Apr 1995	1.2000	1.1900	1.1900
May 1995	1.2000	1.1900	1.1900
Jun 1995	1.2000	1.1900	1.1900
Jul 1995	1.2000	1.1900	1.1900
Aug 1995	1.2000	1.1900	1.1900
Sep 1995	1.2000	1.1900	1.1900
Oct 1995	1.2000	1.1900	1.1900
Nov 1995	1.2000	1.1900	1.1900
Dec 1995	1.2000	1.1900</td	

FINANCIAL TIMES SURVEY

Economic stagnation, immigration from the Soviet Union and the intifada are the issues confronting Israel as it enters the 1990s. But a protracted domestic political crisis is delaying a coherent government response to the problems. Hugh Carnegie investigates

In search of a direction

ISRAEL found itself at the start of the 1990s facing challenges which are considerable even by the standards of its turbulent 42-year history. But it also found itself embroiled in a debilitating and distracting government crisis.

A surge of immigration by Jews from the Soviet Union and a US-backed offer of unprecedented peace-talks with the Palestinians had put the prospect of a change of direction. This came after a sour end to the 1980s marked by economic stagnation and the intifada, the violent Palestinian revolt against Israeli rule in the West Bank and Gaza Strip, now in its 29th month.

The outlook was obscured by a domestic political wrangle which led to the collapse in March of a "National Unity Government" which comprised the mainstream Likud and Labour parties and led since the 1986 general election by Mr Yitzhak Shamir, the Likud leader. The two parties, always reluctant partners, parted over Mr Shamir's refusal to accept Washington's terms for the proposed peace talks.

More than a month later, the shape of a new Government – and with it any clear set of policies to deal with the out-



Meeting of minds: armed border guard confronts an Arab mother in Jerusalem

standing issues facing the country – has still to emerge.

A week ago, Mr Shimon Peres, the Labour party leader, was forced to abort an attempt to install a Labour-led administration, without Likud, that was committed to accepting the US peace talks proposal. He failed because two members of the Knesset (parliament) from an ultra-orthodox religious party, whose votes he relied on for a majority of 61 in the 120-seat house, abandoned him at the last moment.

At the time of writing, Mr Peres was still trying to reconstruct a majority. But this seemed a diminishing prospect. Mr Shamir and Likud were again hard at work to prevent his moves and perhaps build their own narrow coalition. The resurrection of a broad coalition, which first came into existence under Mr Peres in 1984, was also mooted.

Public frustration at the way in which government had fallen victim to feverish political intrigues was expressed in growing calls – backed by President Chaim Herzog – for electoral reform. More than 150,000 people demonstrated in Tel Aviv for an end to the extreme form of proportional representation that leaves the formation of governments at

the mercy of small factions such as the religious parties. Regardless of political affiliation, there is a strong belief among many Israelis that the system is preventing coherent responses to the leading policy issues of the day. The most dramatic of these, as far as Israelis are concerned, is the tide of Soviet emigrants that is set to become one of the largest influxes of Jews to Israel. It is a development of great potential consequence for both Israel and its Arab neighbours.

The numbers began to mount sharply in the autumn of 1989. A combination of easier emigration rules, growing Soviet instability and tougher US entry regulations made thousands of Soviet Jews decide to take advantage of Israel's Law of Return, which enshrines the state's fundamental purpose of providing a home for all Jews.

By March this year, Soviet "aliyah" (immigration) had reached more than 7,000 a month. If there are no interruptions, officials expect 100,000 this year. Estimates of the eventual influx range as high as 1m.

The influx is widely seen as a fillip to a country where great importance attaches to the size of the population. Instead of worrying about recent persistent emigration by young Israelis, officials now talk about achieving demographic "critical mass."

However, absorbing such great numbers successfully into a recently moribund economy will require considerable

skill by the Government. The newcomers should provide an engine for growth that has been lacking in the last two years. But the cost of absorbing them in the initial period threatens to bloat Government deficits which were already on an upward trend, pushing up borrowing levels and compounding inflation which topped 20 per cent last year.

There is strong concern among economists that the immigrants should be absorbed in the longer term by the private sector to avoid a regression in efforts to slim down the Government's role in the economy. But unemployment, at almost 9 per cent, is at a 20-year high and the private sector has recently been complaining about low profitability.

The migration has evoked a furious response in the Arab world, bringing appeals to Moscow and Washington from Palestinian and Arab leaders for it to be curbed. The chief concern is that large numbers of Soviet immigrants will join the 80,000 Jewish settlers living in the territories occupied in the 1967 Six Day War.

The Soviet Union, US and the EC have warned Israel against this. Just before the Shamir government fell, there was a sharp exchange between

Israel and the US on the issue. President George Bush said the immigrants should not be settled in areas of Jerusalem captured by Israel and annexed after 1967. Israel refuses to heed the latter call, insisting, against general international acceptance, on Israeli sovereignty over all Jerusalem. On the rest of the occupied territories, the old government said Soviet immigrants were free to go where they liked.

This has not placated Arab leaders whose concerns run deeper than just the settlement of the West Bank and Gaza. They are worried that the influx will tip the area's demographic balance against the Palestinians. Arabs make up about 2.5m of the combined population of Israel and the occupied territories, while Jews account for about 3.7m.

The Arab fear is that a sudden rise in the Jewish population will be at the expense of the Palestinian claim to an independent state as a more populous Israel loses its incentive to make territorial concessions. Arab concerns have also been exacerbated by the way eastern European countries, hitherto anti-Israel, have rushed to restore relations with Israel, cut off in line with Moscow after the 1967 war.

These developments have served to stoke up the deep tensions that still exist between Israel and most of its Arab neighbours – Egypt is the only Arab nation to have made peace with Israel. The level of arms build-up in the region was illustrated by President Saddam Hussein's declaration that Iraq possessed advanced chemical weapons and would destroy half of Israel in the event of an Israeli attack on Iraq. Israel, widely credited with large nuclear and chemical arsenals, views Iraq's drive to develop non-conventional strategic weapons with concern.

The response of the Likud right to these developments is to see them as reinforcing the case for Israel to be strong and unyielding, especially when it comes to territorial concessions in the occupied territories. On the Labour side, they are seen as reasons to seek a settlement with the Palestinians which will end the conflict in the Arab territories, lower the tensions in the region and allow Israel to concentrate on absorbing the Soviet newcomers without unwanted distractions.

The intifada has lost some of its intensity in the two years since it began. However, from

the Israeli perspective it still ties up heavy and expensive army commitments, is a drag on the economy and sours Israel's international relations.

Labour accepts as a starting point a proposal put forward by Mr James Baker, the US Secretary of State, for talks in Cairo between Palestinian and Israeli delegations. This was in turn based on an Israeli peace plan advanced in May 1988 by Mr Shamir which, among other elements, proposed holding elections in the West Bank and Gaza leading to limited Palestinian self-government, followed at a later stage by talks on a final settlement.

Mr Shamir and Likud backed off their plan, precipitating the end of the Likud-Labour coalition, because they believed the

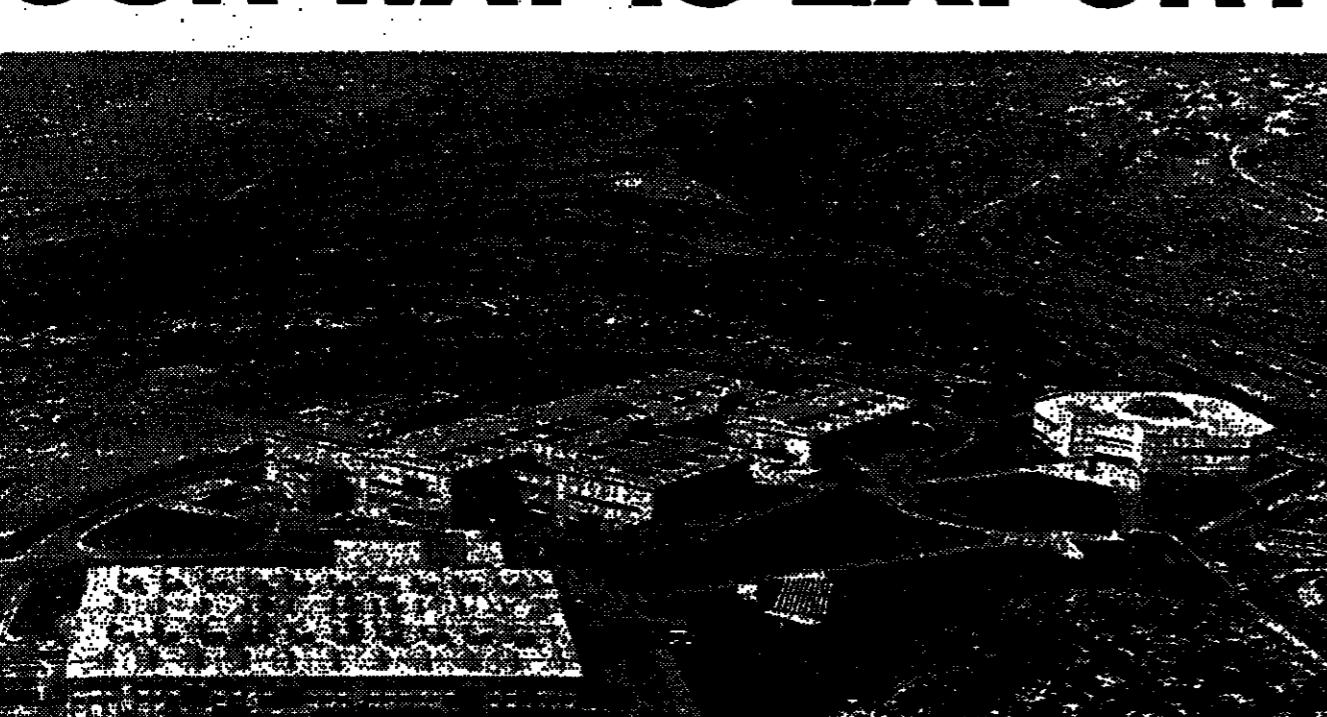
formulation of the Palestinian delegation gave the Palestine Liberation Organisation a clear, if indirect, role in the negotiations which Likud was against. Likud objected to the inclusion in the process of Arabs living in Jerusalem.

What prospects there are for reviving the US proposal depends to a large extent on the composition of the new Israeli Government. But even if the stage of elections in the occupied territories is reached, the later stage of negotiating a final settlement remains fraught with difficulties as even Labour's willingness to exchange some land for peace falls far short of the PLO minimum demand for a fully independent Palestinian state in the West Bank and Gaza.

KEY FACTS

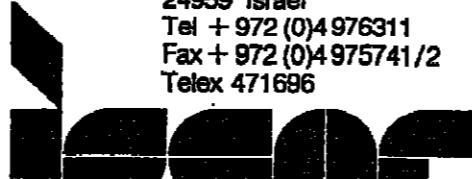
Area	20,325 sq km	
Population (million)	4.551	
Head of State	Chaim Herzog	
Currency	NIS 1 = 100 agorot	
Average Exch Rate	1.92 Shekel/\$	
ECONOMY		
average		
1979-89	1988	1989
Total GDP (US \$m)	41,878	42,283
Real GDP growth	3.0%	1.6%
Current account balance	-678	1,000
Current ac bal as % of GDP	-1.6	2.4
Exports incl. non-factor svcs	11,015	10,900
Imports incl. non-factor svcs	13,159	12,700
Trade Balance	-3,144	-1,800
Total Debt	25,100	24,300
Debt as % of GDP	59.9	57.5
Inflation	128%	16.3%
	20.2%	

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ISRAEL 2

The political system is a vulnerable one, argues Eric Silver

A proliferation of parties

ISRAEL MUST be the only country in the world which has a word for a politician who sells his vote to the enemy at a moment of crisis. It is "Kalanterism", named after an otherwise forgotten Jerusalem city councillor, Rahamin Kalanter, who deserted the National Religious Party in 1955 and thus kept the governing coalition in office.

The phenomenon is not unknown elsewhere, but the Israeli political system is particularly vulnerable. The 120 members of the national parliament, the Knesset, are elected under the most extreme form of proportional representation.

The entire country is treated as a single constituency. The voters are presented with party lists. They vote for a party, but cannot influence the choice of candidates. The threshold of votes necessary to win representation is a low 1 per cent of the total.

The system encourages a proliferation of parties. The 1988 general election returned 15 to the Knesset. They included four religious parties, with a total of 15 seats, as well as three predominantly Arab parties (including the Communists) with a total of six. There were three parties with a total of seven seats to the right of Likud - the mainstream party of the right - and three with 10 to the left of Labour - the mainstream leftist group.

It was the third successive election to produce a stalemate between Likud and Labour (40 and 39 seats respectively), as well as one between the two



Shimon Peres (left) tried to form a coalition after Yitzhak Shamir, lost a no-confidence vote

ideological blocks of right and left, defined in terms of their attitude to the important question of a compromise peace with the Palestinians. This gave the smaller parties, especially the religious parties, maximum leverage.

By this spring, when Mr Shimon Peres, the Labour leader, tried to form a new coalition after his Likud rival, Mr Yitzhak Shamir, lost a no-confidence vote, there were 17 parties or factions to contend with. A block of five disaffected Liberals had broken away from the Likud, into which their party had merged with a series of trial marriages between 1969 and 1989, and Mr Charlie Bitton, a North African-born inner-city activist, had left the Communist Democratic Front.

More recently, bills were presented for a mixed system of multi-member constituencies (electing a total of 80 MPs). Mr Peres's attempt to buy



over a Likud deserter provoked a grassroots campaign for electoral reform comparable in scale with the protest movement that followed the 1973 Yom Kippur War, when the nation fell down by its leaders, and the 1982 invasion of Lebanon, when hundreds of thousands demonstrated to force an inquiry into the Sabra and Chatila massacre of Palestinian refugees by Israel's Christian allies.

Electoral reform had been on the national agenda for at least two decades. David Ben-Gurion, the first Prime Minister, regretted introducing proportional representation and favoured a British-style constituency system.

More recently, bills were presented for a mixed system of multi-member constituencies (electing a total of 80 MPs). They find encouragement

in the precedent of directly elected mayors, even when local communities are as divided as the nation as a whole.

"The mayor forms his coalition in a matter of days," says Professor Amnon Rubinstein, a former Justice Minister and dean of the Tel Aviv University law school, who leads the centrist Shlomo party. "He doesn't have to resort to bribery to secure office. He is the mayor de facto. He invites prospective partners to serve under him. They do."

Prof Rubinstein argues that fears of an elected dictator are misconceived. Under his proposal, the Knesset would retain the right to dismiss a Prime Minister, but that would entail a dissolution and new elections.

The authority of a directly-elected Prime Minister, as well as a reluctance to go too often to the polls, would make for greater stability.

He contends that direct elections would encourage the parties to choose moderate, rather than extremist, candidates for Prime Minister. "When 51 per cent of the people have to vote for somebody," he said, "you go for a candidate who is middle of the road. Likud, for instance, would have to put up a candidate who is acceptable to some on the left."

A strongman such as Mr Ariel Sharon, who resigned from Mr Shamir's cabinet to crusade against the Israeli peace initiative, would have less chance of winning power under the proposed reform than under the old system, Prof Rubinstein argued.

"As things are now, Sharon only needs the votes of Likud central committee members, which he might well get. For direct elections he would have to appeal to the people who waver."

FOREIGN RELATIONS

The passing of a pariah

A by-product of the transformation of eastern Europe has been a diplomatic windfall for Israel.

The Soviet Jewish immigrants arriving at Tel Aviv's Ben Gurion airport are seen as ensuring the long-term viability of the Jewish state.

The newly democratic states of eastern Europe are restoring diplomatic relations with Israel. They were broken off by the Eastern bloc, with the exception of Romania, at the time of the 1967 Arab-Israeli war. Only Moscow, which wants Israel to agree to a Middle East peace conference, and the maverick Albania, are standing firm.

The Soviet Union has modified the once automatic support it granted to radical Arab states such as Syria and to the Palestine Liberation Organisation during the Cold War. Eastern bloc support for terrorism has all but vanished.

Israel ties with the numerous African states who wield such influence in the United Nations have meanwhile improved steadily since Egypt's peace treaty with Israel in 1979.

"No more pariah," says Mr Reuven Merhav, director general of the Foreign Ministry in Jerusalem. "This terrible isolation is over... we are enjoying a spring in eastern Europe."

This good news for the Foreign Ministry during the tenure of Mr Moshe Arens more than offsets the disadvantages of a tetchy relationship with Washington since President George Bush took over from Mr Ronald Reagan at the White House. It also helps to compensate for the damage to Israel's image caused by the Palestinian uprising in the occupied territories and Israeli attempts to suppress it.

Washington's commitment to the US-Egypt-Israeli strategic triangle is in any case as strong as ever, and in spite of the occasional mutterings in Congress, US aid to Israel continues at a level of \$3bn a year.

The problems in the US-Israeli relationship arise from disagreements about the "peace process" and the slightly firmer stand taken by Mr Bush and Mr James Baker, his Secretary of State, against the Israeli expansionism in the occupied territories favoured by Likud hardliners.

Israeli officials were annoyed by Mr Baker's assertion last year that it was time for Israel "to lay aside, once and for all, the unrealistic vision of a greater Israel", and they were irritated by a State Department report last month stating that the PLO had adhered to its 1988 commitment to renounce terrorism. They were incensed by Mr Bush's reiteration of US policy on Jerusalem, which says the city's status should be negotiated. Israel annexed Arab east Jerusalem in 1967 and has surrounded the city - a holy place for Jews, Moslems and Christians - with Jewish settlements.

The Americans have been

upset by the reluctance of Mr Shamir to move towards implementing his own peace plan for elections and self-government in the occupied territories, and frustrated by what they regard as the attempts of the likes of Mr Arens and Mr Binyamin Netanyahu, deputy Foreign Minister, to score debating points rather than negotiate if they wanted a solution.

US and Egyptian attempts to arrange preliminary talks between Israelis and Palestinians in Cairo have been foiled by Israel's refusal to accept even an indirect role for the PLO in the name of the Palestinian delegation. It is not easy to judge a country's foreign policy when there are such differing perceptions about it.

If one accepts that Mr Shamir wanted his election plan to work, then hitherto he has failed; but if one accepts the Palestinian argument that the Israeli tactic has been to put the entire peace process on hold while the intifada runs out of steam and extensive Jewish settlement of the territories becomes a fait accompli, then Mr Shamir was succeeding - at least until he lost the no confidence vote in the Knesset last month.

In spite of the advantages of the end of the Cold War and the collapse of communism in Europe, Israel does not necessarily find itself in a safer world, as Mr Netanyahu readily acknowledges. "In a world that is no longer bipolar the threats haven't disappeared," he says. "The world we are now entering is not necessarily more peaceful."

The danger of regional instability unrelated to the superpowers has been amply demonstrated by President Saddam Hussein of Iraq. He recently boasted about his country's chemical weapons capability and threatened to destroy half of Israel if it attempted an attack such as the Israeli air raid which destroyed an Iraqi nuclear reactor in 1981.

Israel is concerned by Iraq's long-range missiles, its chemical weapons, its attempts to build a nuclear bomb, and even by its conventional forces following the Gulf war ceasefire with Iran in 1988. President Saddam has forged military links with Jordan on Israel's border, and only an illegal inter-Arab bond has prevented an Iraqi alliance with Syria.

Israeli relations with Egypt (the only Arab state with which Israel has formal diplomatic ties) are frigid but correct following the peace treaty, and Israel has watched with satisfaction as Cairo has been welcomed back to the Arab fold without cutting links to the "Zionist enemy".

In five or 10 years the Foreign Ministry in Jerusalem would like to secure Israel's other borders through a series of strategic arrangements with countries such as Syria and Iraq, but it acknowledges that such deals are unlikely with Presidents Hafez al-Assad and Saddam at the helm.

Victor Mallet

THE ECONOMIC OUTLOOK

Tide of immigrants may ease doldrums

THE SUDDEN influx of Jewish immigrants from the Soviet Union has galvanised discussion about Israel's economic performance, perhaps more than any other aspect of the nation's affairs.

Until the last few months of 1989, economists fretted over the near-stagnation that had dogged the economy for some two years: the stubborn persistence of inflation, the rise in unemployment, the depressingly low rates of investment.

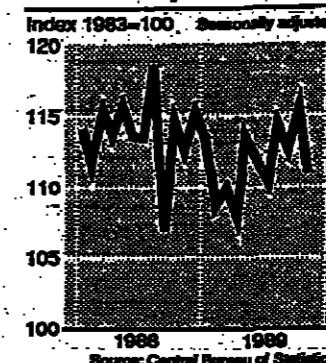
The authority of a directly-elected Prime Minister, as well as a reluctance to go too often to the polls, would make for greater stability.

He contends that direct elections would encourage the parties to choose moderate, rather than extremist, candidates for Prime Minister. "When 51 per cent of the people have to vote for somebody," he said, "you go for a candidate who is middle of the road. Likud, for instance, would have to put up a candidate who is acceptable to some on the left."

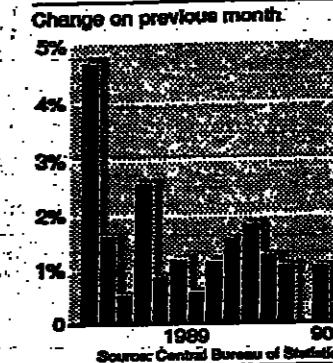
A strongman such as Mr Ariel Sharon, who resigned from Mr Shamir's cabinet to crusade against the Israeli peace initiative, would have less chance of winning power under the proposed reform than under the old system, Prof Rubinstein argued.

"As things are now, Sharon only needs the votes of Likud central committee members, which he might well get. For direct elections he would have to appeal to the people who waver."

Industrial production



Consumer price index



have to slot them into the world market."

The scale of the challenge was spelled out by a Bank Hapoalim study of the economic impact of immigration. It said that just to prevent a further rise in the jobless, employment would have to rise at a rate of 4 per cent a year, compared with the average over the past decade of 1.6 per cent.

Officials are looking to the private sector to provide the solution. They are hopeful that the high proportion of high educational and professional qualifications among the Soviets, coupled with their apparent willingness to adapt to different occupations, will help. But there is strong concern in the private sector that recent Government policy has been counter to encouraging employment.

The Finance Ministry and Bank of Israel have more or less been in agreement over keeping up the level of the shekel as the main instrument against inflation.

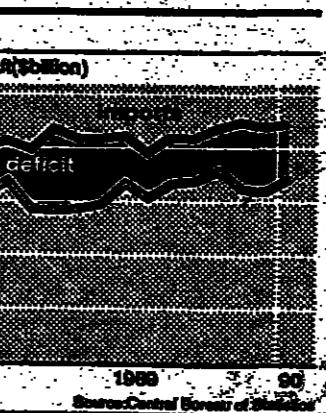
At the same time, the Bank of Israel has brought great pressure on the commercial banks to lower interest rates to try to stimulate growth. Efforts have so far been limited. There is still a heavy reliance on the continued annual flow of US economic and military aid worth \$3bn.

Nobody denies that in the initial period of immigrant absorption, the Government will have to spend large additional funds on housing, training, infrastructure and other costs. Bank Hapoalim estimates that the growth that immigration will help engender will allow the Government to add \$1 billion over the next four years to its present external debt of \$16.5bn without increasing the ratio of debt to GNP now standing at almost 40 per cent.

In the longer term, the dilemma is how to promote sufficient real growth to absorb the newcomers without expanding the state sector which the government is trying to reduce. "This is a challenge, a real challenge," says Mr Amos Rubin, economic adviser at the prime minister's office. "Absorbing them will not be an easy question. Local demand can't satisfy them. We

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Hugh Carnegy

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ISRAEL 3

The private sector is under pressure

Hopes rest on exports

ISRAEL'S private sector industries have taken a beating over the past few years. The Government's continued efforts to curb inflation cut both private and public consumption in 1989 and put a brake on economic growth. Real gross domestic product grew by only about 1.1 per cent last year, compared with 1.6 per cent in 1988 and 5.2 per cent in 1987.

Company profits have fallen sharply and investment has been reduced to a level regarded by many as dangerously low. Unemployment in 1989 peaked at more than 9 per cent, its highest level in more than two decades.

Israel's pessimists fear that industry will not have the competitive edge it needs to succeed in the European Community — the country's most important market — after 1992; that the slumped-down manufacturing sector will have difficulty absorbing the wave of Soviet Jewish immigrants; and that the Palestinian uprising in the occupied territories, together with uncertainty over Israel's future economic policy, will deter investors.

The optimists say the worst is over. They paint a picture of an economy which has beaten hyperinflation since the mid-1980s and a private sector which has emerged lean and fit from a traumatic but necessary adjustment process.

Israel's emphasis on

research and development into high technology, they argue, is well-suited to the international business environment of the 1990s. Israel can benefit from its high levels of education and the language skills of its people. As the only country which has free trade agreements with both the EC and the US, it can also act as a trading bridge between America and Europe.

Mr Dov Lautman, president of the Manufacturers' Association of Israel and chairman of Delta Galli Industries (one of the leaders in the European men's underwear market),

will call himself a realist.

"Industry in Europe is growing at a rate of 2 per cent a year," he says. "We have lost 5 per cent in two years. The main question is, is our industry strong enough? Is our economic policy going to strengthen industry as the market gets tougher?"

Israel's industry, with more than half in private sector hands, caters for a small home market and is therefore heavily dependent on exports.

More than 40 per cent of industrial products are exported, but the figure needs to rise to 60 per cent if Israel's trade deficit is to be eliminated, according to Mr Lautman. Yet Israel underinvested by between \$300m and \$350m a year over the past two years and the trend is continuing, he says.

Export industries are particularly concerned that the Gov-

ernment has not allowed the shekel to be devalued in line with inflation. The exchange rate policy is designed to control inflation but it puts exporting companies at a price disadvantage in foreign markets.

"Utilising the rate of exchange as the main way to fight inflation is wrong," declares Mr Aharon Dovrat, managing director of Clal (Israel) the large holding company. "We are now on the verge of an era such that if we have the right government policies we could give a tremendous impetus to our economy."

Clal's performance has improved that of the private sector. The company lost 5 per cent in 1988, more or less break even last year, and is optimistic about 1990. Clal executives say that since 1989 nearly a third of the workforce has been cut without a decrease in sales.

The defence sector is in the doldrums, textiles are improving, and building and civil electronics are doing well.

Whatever the establishment's doubts about investment in automation at the expense of jobs, many Israelis are convinced that non-military high technology will be the backbone of Israel's economy in the future.

Sixty, for example, in which Clal has a 14.5 per cent stake and Mr Robert Maxwell's Mirror Group acquired a 27 per cent stake, has developed computer imaging systems for the

Victor Mallet

THE INDUSTRIAL arms of both the Government and the trade unions, which together make up a large proportion of Israeli industry, are entering the 1990s in a state of considerable uncertainty.

Privatisation and large-scale restructuring are in the air as the public sector adapts to the need for the market-oriented reform that is so widely espoused as the necessary prescription for economic growth. But the process is hesitant and often painful, and the outcome is a long way from clear.

The Government and the Histadrut, trade union federation, have been the principal owners of Israel's industrial capacity throughout the country's 42-year history. In fact, Hevrat Ha'oydim, or the Workers' Society, the Histadrut's

largest — but now severely debt-burdened — industrial group, Bank Hapoalim, the largest bank, and Solel Boneh, the largest building contractor. The country's extensive co-operative sector is affiliated to Hevrat Ha'oydim, grouping the Kibbutz agricultural and industrial collectives, transport operators and retail chains.

The Government has been committed to a programme of privatisation for some time. In 1988, First Boston of the US recommended a master plan recommending some form of divestment for most of the big state sector names, either through private placement, public issue or some mixture of the two.

The plan, though not followed that closely, has formed the basis of the Finance Ministry's privatisation strategy. In theory, added impetus came from the political asset that the economy would benefit from delivering state enterprises into private ownership.

The state sector, hidebound by bureaucracy and a stifling system of elaborate price controls, has a poor profitability record. In 1988, average return on capital was just 1.8 per cent. In practice, however, things have not been that simple. There have been several successful floatations on the Tel Aviv stock market, most recently a 49 per cent chunk of Maman, an airport cargo handling company. A 75 per cent stake in Paz Oil was sold to an Australian investor for \$100m in 1988 and last year an 82 per cent share of Jerusalem Economic Corporation, a property company, was sold to a group of US investors for \$55m.

These were not much more than a warm up for the big companies, the successful disposal of which has become deeply entangled with politics.

The flagship of the privatisation programme is Israel Chemicals, recently the most profitable state company. The Finance Ministry agreed to sell a 50 per cent share privately for about \$400m and was well advanced in negotiations with buyers from abroad. The

Knesset Finance Committee, which has the power of veto, said it would block any sale of control to foreigners — "golden share" arrangements notwithstanding — because of ICL's status as exploiter of Israel's sole natural resource, phosphates and bromides.

Political opinion tends to favour a local public flotation of ICL, also favoured by ICL management, and the matter has become subject to indefinite delay and uncertainty. Plans are going ahead for public issues in El Al and at least a portion of Bezeq, the telecommunications company. But large-scale privatisation has yet to take place.

At Hevrat Ha'oydim, the approach is different. The basic commitment to trade union ownership of production remains.

Structures have been under enormous strain in the past few years: Koor, employer of 25,000 in 250 companies including once-profitable names such as Tadiran, is still battling to overcome \$1.2bn worth of debt; the Kibbutzim have had to be rescued from aggregate debts of no less than \$1.7bn before that, Solel Boneh came close to closure.

The Histadrut has occasionally indicated a willingness to diversify in extremis, but its strategy is rather to reform. Mainly out of sheer necessity, Hevrat Ha'oydim is formally committed to pursuing profitability, not just employment for Histadrut members.

Changes in management structures have separated the posts of chairman and chief executive and brought in more outside directors to Hevrat companies. The Histadrut secretary general is no longer chairman of Hevrat, which in turn no longer has a direct role in day-to-day management of individual units.

The question is whether these measures are enough to preserve the huge industrial role of the Histadrut in an economy much in need of a regeneration of industrial vitality.

Hugh Carnegy on public sector uncertainties

A painful market path

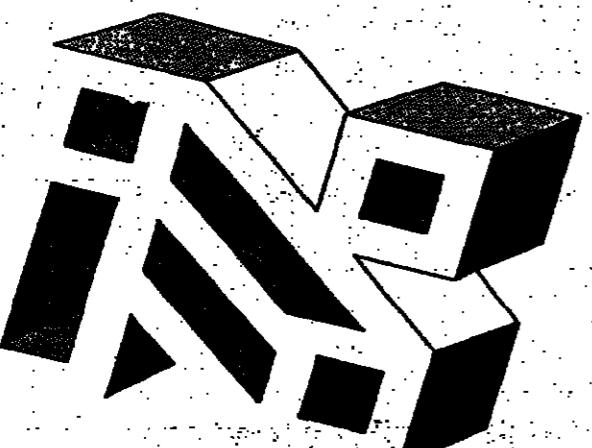
industrial holding company, was started in 1923 as one of the foundation stones of the labour Zionist movement.

There are almost 170 companies owned by the state, generating some 12 per cent of all economic activity. They include Israel Aircraft Industries and Israel Chemicals, both with turnover last year of more than \$1.25 bn.

Hevrat Ha'oydim's umbrella spreads wide, accounting for 50 per cent of industrial output. Under its direct control are Koor Industries, the country's

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The defence industry is combating the fall in military spending

Waging a war on cut-backs

ISRAEL'S highly developed defence industries have recently been fighting a tough war of their own against cutbacks in military spending both at home and abroad.

The casualties in one of the country's most important industrial sectors have been great and the battle to recover is far from over, although for some producers at least, the worst may be behind them.

Israel's history of recurrent wars and the political obstacles it often faces in purchasing weaponry abroad forced it to build up its own defence capabilities. The result was a remarkable array of public and private sector companies producing everything from advanced missiles, through regular guns and ammunition to uniforms.

"Combat proven" became the boast of Israeli military products as defence producers grew to account for some 10 per cent of all employment in Israel and a large chunk of exports. Domestic defence consumption amounted to almost 15 per cent of gross domestic product in 1984.

Since then, however, a squeeze on the domestic defence budget and, more recently, a decline in the level of conflict around the world has hit Israeli producers. The result is painful processes of restructuring towards greater efficiency and a more reliance on civilian products. Because the defence sector provides the drive for much of the high-technology activity that is regarded as important to industrial development, its ability to adapt and survive will have strong economic consequences.

The greatest blow was the decision in 1987 by the Government to scrap the development of a home-grown jet fighter, the Lavi. The impact was felt throughout the defence sector, which at the start of the decade had accounted for as little as 10 per cent of sales.

Concentrating on its core business in aviation, IAI began putting efforts into adapting its aircraft maintenance and conversion systems, avionics, aerodynamics and other expertise to civilian uses. The most often quoted example is its promotion of unmanned aircraft, or "drones", for forest fire spotting, anti-smuggling surveillance and other civilian uses.

Two companies which have been hit especially hard are Tadiran and Soltam, both subsidiaries of Koor Industries, the debt-plagued, trade union-owned conglomerate. Tadiran lost more than \$100m last year largely because of problems in its military communications section. Soltam faces deep financial trouble. The army has so far refused to buy its new 125mm "Sholeh" cannon, preferring cheaper foreign alternatives or the upgrading of existing cannon.

Other defence producers have not managed to change course so adroitly. Ministry of Defence officials say both

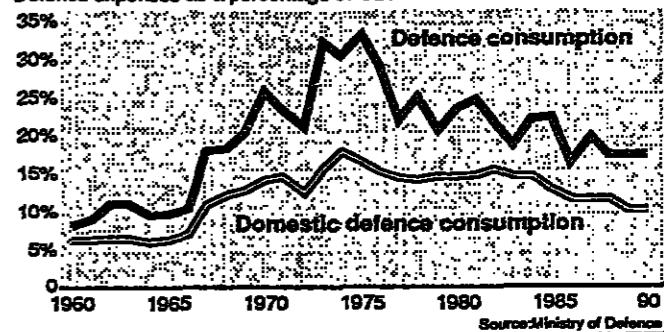
Israel Military Industries, a maker of basic military hardware,



The decision in 1987 to scrap the Lavi, a home-grown jet fighter, was felt throughout the industry

The Defence "Burden"

Defence expenses as a percentage of GDP



Ebit Computers, a New York-quoted manufacturer of military systems, bought control of Elscint, which makes medical imaging systems to broaden its product base.

Moving away from the military sphere is not the only route. Rada, a Nasdaq-quoted Israeli company employing 200 people in Israel and the US, is keeping its business firmly focused on a military niche it believes will remain profitable.

The company makes computerised portable test and control systems mainly for combat aircraft. "We will benefit when budgets go down," says Mr Haim Nissenson, president of Rada. "When you buy less you upgrade and maintain what you have better."

Hugh Carnegy

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1989 Financial Highlights

Results:	Income before tax	US\$ 197.5 million
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Loans and discounts	Total assets	US\$ 1,231.4 million
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ISRAEL 4

AGRICULTURE IN DECLINE

A 'bolshevik' system

AGRICULTURE is in a dismal state, in spite of its deserved reputation for ingenious use of irrigation and famous produce such as citrus fruits, tomatoes and avocados.

"We are in a situation where all the parameters by which we judge agriculture are negative," says Mr Ilan Shapira, economist at the Centre for Agriculture, an organisation representing the country's kibbutzim and moshavim collectives, together the backbone of Israeli farming.

In 1988 and 1989, bad weather, followed by rising input prices and falling output prices, led to successive declines in the real value of net agricultural product (output minus inputs) of 14 per cent and 17 per cent.

At home a fall in demand caused largely by a boycott of Israeli goods by Palestinians rebelling against Israeli rule in the occupied West Bank and Gaza Strip hit prices, while tough competition abroad knocked exports, which in the last 10 years have slipped from accounting for a third of output to less than a fifth.

Total farm incomes fell by 15.6 per cent in real terms last year. Since 1987, the numbers engaged in farming (not including hired labour) have fallen from 53,200 to 48,000.

At the same time, the agricultural sector has been weighed down by large debts accumulated in the 1980s. First, the moshavim and then the kibbutzim (the main difference is the moshavim are purely agricultural while the kibbutzim also run industries) required rescuing by the Government and the banks. The 270 kibbutzim had run up debts of Shk6.7m (\$3bn).

The write-offs and rescheduling involved in the rescue packages served to reduce the debt-servicing burden of the farming sector last year, but it still amounted to nearly Shk570m, or one third of net

product. At best, the collective movement faces years of struggle to survive. At worst, many collective farms may be forced out of business.

The problems of the past two years may have been particularly acute. But they fit an inexorable long-term trend in which growth figures, averaged over five years, have been shrinking from up to 12 per cent in the 1950s and early 1960s, to near stagnation in the mid-1980s. Agriculture, once a proud mainstay of the development of the Zionist state, accounts for less than 5 per cent of gross national product.

Mr Steven Plaut, a business and economics lecturer at Haifa University, is one of several critics who blame the system for much of these problems.

He describes as "bolshevik" the structure of the marketing boards and the elaborate system of centrally-imposed quotas, subsidies and pricing which circumscribe most agricultural production. Strict import controls bolster the local pricing mechanism.

"There is even a secret police force checking local outlets to make sure unauthorised farm goods don't get on the market," Mr Plaut says.

"Under the current system the big losers are the consumers and the big winners are the politically-strong farmers - not the weaker farmers."

Another consequence, Mr Plaut says, is a host of inefficiencies. For example, Israel continues to devote much of its best land to producing cotton, in spite of its lack of profitability and its large consumption of water, an increasingly scarce and expensive resource.

Meanwhile, it has been slow to develop higher value produce for export markets such as exotic citrus fruits now popular in Europe.

The evolution of the centrally-controlled system dates back to the era of high growth when

Hugh Carnegy

ANGRY Israeli soldiers trained and armed for warfare are chasing a Palestinian schoolgirl carrying a satchel down a shopping street in Gaza. Her friends shout abuse at the soldiers and the occasional stone is thrown at the troops from a roof or an alleyway.

The

acid smell of teargas is in the air, but the soldiers do not seem to have caught anyone; they order the shopkeepers to clear away the makeshift barricades set up by the *shebab*, the young activists. The incident is over, but another one will begin soon.

It is a typical day in Gaza.

The Palestinians have made their defiant gesture, and the Israelis have gone to great lengths to reassert their control over occupied territory.

The Palestinian uprising - the *intifada* - in the West Bank, Gaza and Arab East Jerusalem began in Gaza 28 months ago when four Palestinians were killed in an accident involving a military truck.

Since then some 650 Palestinians have been killed by the Israeli security forces, about 200 Palestinians have been killed by their fellow Arabs for alleged collaboration with the authorities, and 40 Jews have been killed by Palestinians. The Israelis have made more than 40,000 arrests.

The Palestinians - guided by leaflets of factions ranging from the "Unified Leadership" loyal to the Palestine Libera-

tion Organisation, to Hamas, the Islamic Resistance Movement - have pursued a policy of limited violence; stone-throwing is encouraged. The use of weapons is not. They have staged frequent strikes, adopted a boycott of Israeli consumer goods (Israeli melons brought into Gaza are destroyed by the *shebab*), and reduced their dependence on the Israeli economy.

For the Palestinians, the effectiveness of the strategy is beyond question, in spite of the casualties and the economic hardship they have endured.

Israel's international image has been tarnished by television pictures of soldiers shooting and beating children, and its security forces have been implicated in the humiliating task of rounding up stone-throwers.

Palestinians have regained some self-respect through joint action involving the entire community, instead of hoping that they will win back their land through the intervention of Arab allies or guerrillas from across the border.

The *intifada* seems to be reaching a critical phase. Palestinians are exhausted and divided, and the number of alleged collaborators killed this

Victor Mallet looks at the occupied territories

Intifada reaches critical phase

Trouble flares in Ramallah on the west Bank

year matches the number of those shot dead by the Israelis.

Moderate Palestinian leaders are worried that the intransigence of the Israeli establishment - and the absence of any progress in the US-sponsored peace process - will convince the *shebab* that the policy of limited violence has failed.

If Palestinians turn back to guerrilla warfare as a solution, the moderates say, all the propaganda gains of the *intifada* will be lost and the PLO will once again be demonised.

The violence call is a serious matter," says Mr Radwan Abu Ayash, head of the Arab Journalists' Association. "If weapons are used this is the end of everything. The Israelis would like them used, the radicals do not understand this."

The same tensions are apparent in the external leadership of the PLO. Mr Yassir Arafat, chairman of the PLO and of its dominant Fatah faction, claimed the PLO's policy of remaining neutral in the dispute regarding the existence of Israel alongside a future Palestine in the West Bank and Gaza, and winning the US-PLO dialogue.

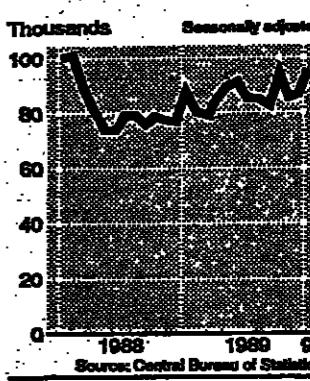
Leftist PLO factions, however, are becoming sceptical about the lack of any benefits

from the new policy. A similar unease is expressed by their supporters in the territories. In some places the Popular Front for the Liberation of Palestine has struck up a tactical alliance with Hamas, which favours the abolition of Israel.

Time, the PLO supporters emphasise, is running out. The peace process has been on hold while Israeli politicians grapple with one of their interminable political crises, and soon the US will lose interest as the presidential election campaign sets out on its long trail. Much depends on the decisiveness of a new Israeli government.

Hamas and the more radical Islamic Jihad (it espouses the armed struggle), have increased the number of their supporters during the politically charged months of the intifada. They have benefited from the Islamic revival throughout the Arab world, the International collapse of Marxism, and recent setbacks for the secular PLO's attempts to achieve a "two-state solution."

"All parties shared in the intifada," says Dr Mahmoud Zahar, a surgeon in Gaza and Islamic tendency supporter. "The major winner is the Islamic movement."

Tourist arrivals by air**Efrat Shvily assesses efforts to revitalise the tourism industry****Uprisings take their toll**

ENTRANCE examinations to Israel's Ministry of Tourism last year required that finalists identify their country's unique tourism assets, from the Holy City of Jerusalem to the health spas of the Dead Sea, to a simulated audience of "potential tourists." Then came the crucial question: "But isn't it too risky to go to Israel?"

The Holy Land is still struggling, with some success, to recover from the *intifada*'s negative effect on tourism, as the 1992 internal market reforms take effect in Europe, Israel's main market, there is a dilemma over how to revive agricultural performance. The best hope seems to lie in the Soviet Jewish immigrants lifting domestic demand.

There is a conviction that a free market would drive down prices and force most producers out of business, leaving behind a few powerful farmers who could then drive up prices that underpin the maintenance of a centrally-controlled system. The collectivist instinct that Israel should not compete with Israeli still appeals to hold sway.

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UNIT TRUST INFORMATION SERVICE

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(United Islands). Calls charged at 58p per minute peak and 25p off peak, inc VAT

Global Fund Data																												
Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	Mid Price	Offer Price	Yield %	Cust Inv.	
National Financial Management Corp PLC	72 Gatehouse Rd, Aylesbury, HP21 3XJ	0296 556539	Provident Capital Life Assc. Co Ltd - Contd	Royal Heritage Life Assurance Ltd - Contd	Saxonia Life Assurance Co Ltd - Contd	Sai Alliance Group - Contd	UK Life Assurance Co Ltd - Contd	Terry Lane & Co Ltd - Contd	Capital House Fund Mgrs - Contd																			
Managed Growth	101.6 107.0	471251	UK Managed Mutual	112.4	474041	Global Ins. & Genl.	104.4	474015	Fed Inv Capital	110.0	474025	Penlife Funds	110.0	474025	Non-Partic.	110.0	474025	Non-Partic.	110.0	474025	Non-Partic.	110.0	474025	Non-Partic.	110.0	474025	Non-Partic.	
Managed Opportunity	141.5 149.0	471252	Special Market Initial	132.0	474052	Global Select Opps.	110.0	474052	Other Commer. Fds	104.4	474052	Penlife Funds	104.4	474052	Non-Partic.	104.4	474052	Non-Partic.	104.4	474052	Non-Partic.	104.4	474052	Non-Partic.	104.4	474052	Non-Partic.	
Managed Growth	100.5 105.0	471253	Japan Equity Initial	94.5	474053	European Growth	108.8	474053	Index Fund	97.1	474053	Index Fund	97.1	474053	Non-Partic.	97.1	474053	Non-Partic.	97.1	474053	Non-Partic.	97.1	474053	Non-Partic.	97.1	474053	Non-Partic.	
Managed Growth	106.7 112.4	471254	Pacific Initial	93.8	474054	Technology Initial	93.8	474054	Property Fund	100.0	474054	Equity Income	100.0	474054	Non-Partic.	100.0	474054	Non-Partic.	100.0	474054	Non-Partic.	100.0	474054	Non-Partic.	100.0	474054	Non-Partic.	
Managed Growth	106.7 112.4	471255	Technology Initial	93.8	474055	Residential Prop. Int'l	105.5	474055	Equity Income	105.5	474055	Equity Income	105.5	474055	Non-Partic.	105.5	474055	Non-Partic.	105.5	474055	Non-Partic.	105.5	474055	Non-Partic.	105.5	474055	Non-Partic.	
Managed Growth	106.7 112.4	471256	Residential Prop. Int'l	105.5	474056	European Initial	99.5	474056	Equity Income	105.5	474056	Equity Income	105.5	474056	Non-Partic.	105.5	474056	Non-Partic.	105.5	474056	Non-Partic.	105.5	474056	Non-Partic.	105.5	474056	Non-Partic.	
UK HIC Fund - Lpfd	149.0 156.0	471257	HIC Fund - Lpfd	100.0	474057	Equity Income	105.5	474057	Equity Income	105.5	474057	Equity Income	105.5	474057	Non-Partic.	105.5	474057	Non-Partic.	105.5	474057	Non-Partic.	105.5	474057	Non-Partic.	105.5	474057	Non-Partic.	
National Mutual Life The Prov. Prud. Co., Inc.	800 E. Main St., New Haven, CT 06520	0462 557475	PEP Corp II	94.6	474058	UK High Inc. Ent'l.	94.6	474058	Equity Income	117.3	474058	Equity Income	117.3	474058	Non-Partic.	117.3	474058	Non-Partic.	117.3	474058	Non-Partic.	117.3	474058	Non-Partic.	117.3	474058	Non-Partic.	
Managed Fund	182.9 195.6	471259	PEP Fund Inv. Int'l	112.3	474059	UK Managed Inv'l	112.3	474059	Equity Income	112.3	474059	Equity Income	112.3	474059	Non-Partic.	112.3	474059	Non-Partic.	112.3	474059	Non-Partic.	112.3	474059	Non-Partic.	112.3	474059	Non-Partic.	
PEP Dividend Fund	136.7 142.0	471260	PEP Fund Inv'l	97.7	474060	PEP Fund Inv'l	97.7	474060	Equity Income	112.3	474060	Equity Income	112.3	474060	Non-Partic.	112.3	474060	Non-Partic.	112.3	474060	Non-Partic.	112.3	474060	Non-Partic.	112.3	474060	Non-Partic.	
PEP Property Fund	148.3 156.0	471261	High Performance	74.8	474061	Terminal Med. Inv'l	62.5	474061	Equity Income	112.3	474061	Equity Income	112.3	474061	Non-Partic.	112.3	474061	Non-Partic.	112.3	474061	Non-Partic.	112.3	474061	Non-Partic.	112.3	474061	Non-Partic.	
PEP Index Fund	143.6 151.0	471262	Terminal Med. Inv'l	62.5	474062	Equity Income	112.3	474062	Equity Income	112.3	474062	Equity Income	112.3	474062	Non-Partic.	112.3	474062	Non-Partic.	112.3	474062	Non-Partic.	112.3	474062	Non-Partic.	112.3	474062	Non-Partic.	
PEP Index Fund	143.6 151.0	471263	Global Growth	110.5	474063	Equity Income	112.3	474063	Equity Income	112.3	474063	Equity Income	112.3	474063	Non-Partic.	112.3	474063	Non-Partic.	112.3	474063	Non-Partic.	112.3	474063	Non-Partic.	112.3	474063	Non-Partic.	
PEP Index Fund	143.6 151.0	471264	Global Growth	110.5	474064	Equity Income	112.3	474064	Equity Income	112.3	474064	Equity Income	112.3	474064	Non-Partic.	112.3	474064	Non-Partic.	112.3	474064	Non-Partic.	112.3	474064	Non-Partic.	112.3	474064	Non-Partic.	
PEP Index Fund	143.6 151.0	471265	Equity Income	112.3	474065	Equity Income	112.3	474065	Equity Income	112.3	474065	Equity Income	112.3	474065	Non-Partic.	112.3	474065	Non-Partic.	112.3	474065	Non-Partic.	112.3	474065	Non-Partic.	112.3	474065	Non-Partic.	
PEP Index Fund	143.6 151.0	471266	Equity Income	112.3	474066	Equity Income	112.3	474066	Equity Income	112.3	474066	Equity Income	112.3	474066	Non-Partic.	112.3	474066	Non-Partic.	112.3	474066	Non-Partic.	112.3	474066	Non-Partic.	112.3	474066	Non-Partic.	
PEP Index Fund	143.6 151.0	471267	Equity Income	112.3	474067	Equity Income	112.3	474067	Equity Income	112.3	474067	Equity Income	112.3	474067	Non-Partic.	112.3	474067	Non-Partic.	112.3	474067	Non-Partic.	112.3	474067	Non-Partic.	112.3	474067	Non-Partic.	
PEP Index Fund	143.6 151.0	471268	Equity Income	112.3	474068	Equity Income	112.3	474068	Equity Income	112.3	474068	Equity Income	112.3	474068	Non-Partic.	112.3	474068	Non-Partic.	112.3	474068	Non-Partic.	112.3	474068	Non-Partic.	112.3	474068	Non-Partic.	
PEP Index Fund	143.6 151.0	471269	Equity Income	112.3	474069	Equity Income	112.3	474069	Equity Income	112.3	474069	Equity Income	112.3	474069	Non-Partic.	112.3	474069	Non-Partic.	112.3	474069	Non-Partic.	112.3	474069	Non-Partic.	112.3	474069	Non-Partic.	
PEP Index Fund	143.6 151.0	471270	Equity Income	112.3	474070	Equity Income	112.3	474070	Equity Income	112.3	474070	Equity Income	112.3	474070	Non-Partic.	112.3	474070	Non-Partic.	112.3	474070	Non-Partic.	112.3	474070	Non-Partic.	112.3	474070	Non-Partic.	
PEP Index Fund	143.6 151.0	471271	Equity Income	112.3	474071	Equity Income	112.3	474071	Equity Income	112.3	474071	Equity Income	112.3	474071	Non-Partic.	112.3	474071	Non-Partic.	112.3	474071	Non-Partic.	112.3	474071	Non-Partic.	112.3	474071	Non-Partic.	
PEP Index Fund	143.6 151.0	471272	Equity Income	112.3	474072	Equity Income	112.3	474072	Equity Income	112.3	474072	Equity Income	112.3	474072	Non-Partic.	112.3	474072	Non-Partic.	112.3	474072	Non-Partic.	112.3	474072	Non-Partic.	112.3	474072	Non-Partic.	
PEP Index Fund	143.6 151.0	471273	Equity Income	112.3	474073	Equity Income	112.3	474073	Equity Income	112.3	474073	Equity Income	112.3	474073	Non-Partic.	112.3	474073	Non-Partic.	112.3	474073	Non-Partic.	112.3	474073	Non-Partic.	112.3	474073	Non-Partic.	
PEP Index Fund	143.6 151.0	471274	Equity Income	112.3	474074	Equity Income	112.3	474074	Equity Income	112.3	474074	Equity Income	112.3	474074	Non-Partic.	112.3	474074	Non-Partic.	112.3	474074	Non-Partic.	112.3	474074	Non-Partic.	112.3	474074	Non-Partic.	
PEP Index Fund	143.6 151.0	471275	Equity Income	112.3	474075	Equity Income	112.3	474075	Equity Income	112.3	474075	Equity Income	112.3	474075	Non-Partic.													

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LONDON SHARE SERVICE

BANKS, HP & LEASING

Market	Code	Price	Wk Chg	% Chg	Last	Dividends	Intraday High	Intraday Low
1.239 FANZ SAI	191	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.251 National Inds	192	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.252 Natl Inds Fin Pl.	193	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.782 Alpenrose Pl.	194	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
31.000 Anglo Irish	195	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.193 Anglo American	196	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
4.025 Banca Bilbao Viz.	197	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.250 Banco de Santander	198	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.251 Banco de Valencia	199	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.344 Bank Lam.	200	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.253 Bank Lam (U.K.)	201	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
8.822 Deutsche Bk DMS	202	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.378 Finserv Santa	203	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.254 First Nat Fin Pl.	204	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.255 First Natl Fin Pl.	205	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.707 First Natl Fin Pl.	206	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	207	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
50.209 First Natl Fin Pl.	208	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
7.505 First Natl Fin Pl.	209	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
4.683 First Natl Fin Pl.	210	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
3.511 First Natl Fin Pl.	211	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
2.256 First Natl Fin Pl.	212	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	213	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	214	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	215	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	216	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	217	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	218	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	219	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	220	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	221	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	222	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.358 First Natl Fin Pl.	223	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.359 First Natl Fin Pl.	224	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	225	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	226	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	227	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	228	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	229	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	230	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	231	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	232	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.358 First Natl Fin Pl.	233	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.359 First Natl Fin Pl.	234	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	235	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	236	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	237	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	238	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	239	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	240	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	241	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	242	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.358 First Natl Fin Pl.	243	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.359 First Natl Fin Pl.	244	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	245	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	246	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	247	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	248	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	249	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	250	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	251	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	252	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.358 First Natl Fin Pl.	253	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.359 First Natl Fin Pl.	254	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	255	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	256	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	257	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	258	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	259	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	260	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	261	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	262	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.358 First Natl Fin Pl.	263	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.359 First Natl Fin Pl.	264	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.350 First Natl Fin Pl.	265	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.351 First Natl Fin Pl.	266	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.352 First Natl Fin Pl.	267	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.353 First Natl Fin Pl.	268	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.354 First Natl Fin Pl.	269	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.355 First Natl Fin Pl.	270	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.356 First Natl Fin Pl.	271	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.357 First Natl Fin Pl.	272	1.35	-0.02	-2.3	1.35	0.00	1.35	1.35
1.								

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

NYSE COMPOSITE PRICES

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2 Month	P/I Sis.			Chgs.			P/I Sis.			Chgs.			P/I Sis.			Chgs.			P/I Sis.		
High	Low	Stock	Div. Yld.	Vol.	Chg.	Close	Prev.	High	Low	Stock	Div. Yld.	Vol.	Chg.	Close	Prev.	High	Low	Stock	Div. Yld.	Vol.	Chg.
Continued from previous Page																					
304.32	Questar	1.32	54.14	126	-36%	361	+2%	304.32	54.14	Questar	1.32	54.14	+2%	304.32	54.14	UAM	1.45	23.19	54	17.1	
184.11	Quality	266	20.11	141	-13%	129	+3%	184.11	20.11	R-F-R	—	—	—	184.11	20.11	UAT	2.32	7.9	60	20%	
97.82	RAC Int'l	126	12	441	-10%	101	+1%	97.82	12	RAC Int'l	126	12	+1%	97.82	12	CIO	2.20	8.7	100	22%	
102.57	RBI Corp	40	4.0	7	37	104	+2%	102.57	40	RBI Corp	40	4.0	+2%	102.57	40	UDM	0.94	6.5	16	24%	
184.10	RHO Int'l	13	1.5	288	-12%	122	+2%	184.10	1.5	RHO Int'l	13	1.5	+2%	184.10	1.5	UDM	0.94	1.25	12	17%	
84.54	RICOH	.02s	75	46	-7%	54	+2%	84.54	75	RICOH	.02s	75	+2%	84.54	75	UDM	0.94	1.1	11	11%	
51.55	RIPS	.02s	15	17	52	52	+2%	51.55	15	RIPS	.02s	15	+2%	51.55	15	UDM	0.94	1.1	11	11%	
49.49	Ritson	.02s	6.35	22	-5%	54	+2%	49.49	6.35	Ritson	.02s	6.35	+2%	49.49	6.35	UDM	0.94	1.1	11	11%	
77.74	Ritek	1.65	2.10	80	-8%	56	+2%	77.74	2.10	Ritek	1.65	2.10	+2%	77.74	2.10	UDM	0.94	1.1	11	11%	
52.55	Ringo	0.9s	16.22	107	-6%	54	+2%	52.55	16.22	Ringo	0.9s	16.22	+2%	52.55	16.22	UDM	0.94	1.1	11	11%	
25.25	Rivco	.22	1.26	355	-2%	26	+2%	25.25	1.26	Rivco	.22	1.26	+2%	25.25	1.26	UDM	0.94	1.1	11	11%	
13.55	RJAHF	.24	1.3	98	-10%	105	+2%	13.55	1.3	RJAHF	.24	1.3	+2%	13.55	1.3	UDM	0.94	1.1	11	11%	
78.78	Rojan	.03s	15	6	112	25	+2%	78.78	6	Rojan	.03s	15	+2%	78.78	6	UDM	0.94	1.1	11	11%	
72.72	Roflyte	—	8	125	-2%	24	+2%	72.72	8	Roflyte	—	8	+2%	72.72	8	UDM	0.94	1.1	11	11%	
60.60	Roxin	2.40	3.7	4271	-6%	56	+2%	60.60	3.7	Roxin	2.40	3.7	+2%	60.60	3.7	UDM	0.94	1.1	11	11%	
21.21	Robby	0.12s	5	216	24	24	+2%	21.21	5	Robby	0.12s	5	+2%	21.21	5	UDM	0.94	1.1	11	11%	
17.17	Rochat	1.42	1.6	10	61	14	+2%	17.17	1.6	Rochat	1.42	1.6	+2%	17.17	1.6	UDM	0.94	1.1	11	11%	
16.16	Rofit	1.72	12	5	11	14	+2%	16.16	5	Rofit	1.72	12	+2%	16.16	5	UDM	0.94	1.1	11	11%	
5.52	Rosetta	.30	1.6	12.222	-1%	18	+2%	5.52	1.6	Rosetta	.30	1.6	+2%	5.52	1.6	UDM	0.94	1.1	11	11%	
12.12	Rougeal	1.7%	15	8	21	10	+2%	12.12	8	Rougeal	1.7%	15	+2%	12.12	8	UDM	0.94	1.1	11	11%	
43.43	Rohm&Haas	0.22	5.20	200	-5%	54	+2%	43.43	5.20	Rohm&Haas	0.22	5.20	+2%	43.43	5.20	UDM	0.94	1.1	11	11%	
16.16	Ropeal	0.7s	1.3	126	-2%	21	+2%	16.16	1.3	Ropeal	0.7s	1.3	+2%	16.16	1.3	UDM	0.94	1.1	11	11%	
7.75	Rosco	1.38	2.5134	655	-4%	45	+2%	7.75	2.5134	Rosco	1.38	2.5134	+2%	7.75	2.5134	UDM	0.94	1.1	11	11%	
18.18	Rosley	.50	3.8	9	35	21	+2%	18.18	3.8	Rosley	.50	3.8	+2%	18.18	3.8	UDM	0.94	1.1	11	11%	
40.40	Royer	1.80	3.8	102	-5%	56	+2%	40.40	3.8	Royer	1.80	3.8	+2%	40.40	3.8	UDM	0.94	1.1	11	11%	
3.32	Rumpf	0.24	3.7	175	-2%	24	+2%	3.32	3.7	Rumpf	0.24	3.7	+2%	3.32	3.7	UDM	0.94	1.1	11	11%	
2.82	Ruske	0.20	4.2	104	-10%	20	+2%	2.82	4.2	Ruske	0.20	4.2	+2%	2.82	4.2	UDM	0.94	1.1	11	11%	
2.82	Rwby	0.20	2.8	10	32	32	+2%	2.82	2.8	Rwby	0.20	2.8	+2%	2.82	2.8	UDM	0.94	1.1	11	11%	
1.51	Rybom	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Rybom	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%	24	+2%	1.51	2.2	Ryoma	0.16	2.2	+2%	1.51	2.2	UDM	0.94	1.1	11	11%	
1.51	Ryoma	0.16	2.2	22	-5%																

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra[a]; b-annual rate of dividend plus stock dividend; c-liquidating dividend; d-new yearly low; d-declared or paid in preceding 12 months; g-dividend Canadian funds, subject to 15% non-residence tax; i-dividend declared after split-up or stock dividend; j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting; l-dividend declared or paid this year, an accumulative issue with dividends in arrears; n-new issues in the past 52 weeks. The high-low range begins with the start of trading, d-neat day delivery; P/E price-earnings ratio; r-dividend declared or paid in preceding 12 months; plus stock dividend; stock split. Dividends begin with date of split; s-splits; dividend paid in stock in preceding 12months; estimated cash value on ex-dividend or ex-distribution date; u-new yearly high; trading halted; w-in bankruptcy or receivership or being organised under the Bankruptcy Act, or securities assumed by such companies; wd-distributed; wi-when issued; ww-with warrants; x-ex-dividend or ex-rights; xds-ex-distribution; xw-without warrants; y-ex-dividend and sales infiniti; yld-yield; sales in full.

NASDAQ NATIONAL MARKET

3pm prices April 16

Stock	Div.	Sales	High	Low	Last	Chng	Stock	Div.	Sales	High	Low	Last	Chng	Stock	Div.	Sales	High	Low	Last	Chng	Stock	Div.	Sales	High	Low	Last	Chng			
ASBwD		280	605	55	313	-21	CroTr		100	87	63	65	-1	J J Sns		12	400	91	8	81	+ 1	PymT		1000	568	401	30	+ 1		
ACC Cp	.16	20	49	104	94	-13	CrownPs		255	74	62	67	-1	JLG		20	25	21	21	-1	CVC	.10	32	671	115	114	114	-1		
ADC		16	431	1624	231	203	CulinFr		26	357	83	65	61	-1	Jecob		50	11	25	24	23	-1	QuanDp		32	143	221	21	+ 1	
ADT		10	108	30	20	-10	Cyber		1	229	61	55	55	-1	Jecob		1	16	68	161	154	-1	QuashCn	.98	11	134	31	21	+ 1	
ASK		13	538	34	20	-10	DF Sou		5	104	114	114	114	-1	Jewel		1	16	68	161	154	-1	QFCoff		11	134	31	21	+ 1	
AST		190	1789	221	207	-12	D-Tch		14	1100	1165	1165	1165	-1	JhVab		14	28	23	23	23	-1	Quattro		9	4584	15	14	+ 1	
Academ	4	6	8	174	124	-12	NAI PI		1	22	7	6	6	-1	JWFA		14	24	23	23	23	-1	Quiksilver		23	227	27	27	+ 1	
AcadArt	1	11	32	24	23	-1	DS BrtC 600		6	312	11	10	10	-1	Jones A		1	16	68	161	154	-1	Curate		6	61	64	64	+ 1	
AcadSci	.98	1	5	1584	172	-12	DSC		18	182	141	136	136	-1	Junkel	.06	24	149	117	113	114	-1	R-R							
Adapt		17	4033	21	19	-12	Darling		39	102	135	132	132	-1	June		20	15	25	24	24	-1	RPM	.06	16	7678	237	205	204	
AdingL	s	14	29	191	150	-12	Darop		15	17	25	24	24	-1	Justin		42	19	35	35	34	-1	RC	PC	8	43	41	117	-1	
Adios	.216	23	3555	40	39	-12	Dashop		1	807	21	20	20	-1	KLA		16	25	25	20	19	-1	Redsys	.10	18	94	17	17	-1	
AdmCrv	s	6	96	88	88	-12	Dasho		12	91	134	129	129	-1	Kamen		44	17	125	81	81	-1	Reinb		23	211	15	15	+ 1	
AdMSv		8	220	6	5	-12	Dekope		20	13	61	36	36	-1	Kasler	.06	31	47	97	93	93	-1	Reilly		47	11	84	9	-1	
AdnDly		16	63	174	17	-12	Dekop		13	46	54	54	54	-1	Keegan		40	11	47	34	30	-1	Reymd		41	74	82	11	+ 1	
Advent	.138	14	547	104	95	-12	Dekop		22	234	74	73	73	-1	KHSA	s	56	1	501	41	31	-1	Reidgn		41	74	82	11	+ 1	
Adwest		14	26	63	63	-12	Dekop		9	47	24	24	24	-1	KHSA	s	56	1	501	41	31	-1	Reutbd	.746	22	1934	57	57	+ 1	
Advntx	.138	6	80	131	124	-12	Dekop		23	458	107	105	105	-1	KHSA	s	56	1	501	41	31	-1	Rhod		58	105	55	55	-1	
AgevR		1	18	301	134	-12	Dekop		11	20	58	58	58	-1	Khodam		1	16	68	161	154	-1	RochG	.56	8	241	12	12	-1	
Agnico	s	20	335	64	73	-12	Dekop		23	1825	254	252	252	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
AirMdc		132	145	15	15	-12	Dekop		15	825	25	24	24	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Airline		154	245	104	104	-12	Dekop		15	844	21	20	20	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Airtran		13	213	84	84	-12	Dekop		14	1030	124	124	124	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Alco	1.46	6	683	374	354	-12	Dekop		7	585	12	10	10	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Alcos		17	57	111	111	-12	Dekop		17	433	124	114	114	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Alctec	.20	7	262	204	204	-12	Dekop		12	242	75	73	73	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Alctec		11	7	57	57	-12	Dekop		15	269	27	25	25	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
Alctec		11	20	15	15	-12	Dekop		15	269	27	25	25	-1	Khodam		11	20	22	22	22	-1	RochG	.56	8	241	12	12	-1	
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The Business Column

Privatised companies face new pressures

WHEN privatisation surfaced as a political issue in the mid-1980s it seemed to have a fairly clear meaning — the transfer of publicly-owned assets to private ownership.

The bureaucratic entanglements of state ownership were to be replaced by the disciplines of a capital market — with shareholders breathing down managers' necks.

But as the programme has moved on, so has the task facing privatised companies.

In the past month three have published plans which signal a change of direction.

British Petroleum announced a sweeping change in the organisation and culture of its central management. British Telecom unveiled plans for the introduction of more customer-driven units capable of responding more effectively to international competition.

Last week British Airways launched a revised version of its mission and goals intended to give its employees a renewed focus for the challenges of the coming decade.

The similarities between British Airways and British Telecom are particularly striking. Both have had to invest heavily to improve their customer service reputations.

Top-class service

BA has made more progress in turning itself into a top-class service company than BT. The quality of the UK telephone network reached a low in 1987 three years after privatisation, forcing BT to delay staff reductions and accelerate investment.

Both businesses rely on efficient infrastructures.

BT is to start reaping the rewards from its investment in a digital trunk network. It plants this summer to start work on a digitalised network for Edinburgh which will be the most advanced in the UK and serve as a test bed for other schemes to be implemented later in the year.

In contrast, BA's infrastructure is increasingly creaking. It is stymied by the inadequacies of European air traffic control which creates delays which no amount of customer service can overcome.

Airport capacity in the South-East is limited and transport links to Heathrow are poor by the standards of competitor airports such as Schiphol, near Amsterdam.

The initial priorities of costs, then customer service, then marketing and branding are being replaced with more complex tasks.

Both companies operate in highly regulated industries, with constraints on cross-border shareholdings.

They have left state ownership but they are still some way from a fully competitive, international market.

It is that transition which managers at both companies are preparing for.

International links

At the same time, more intense competition is starting with the progressive international deregulation of their industries. Both will have to fight harder to protect their traditional UK markets while forging international links.

They will have to develop more products, move swiftly, in more markets, while also keeping a tight grip on their core domestic businesses.

The message of both initiatives is this: after the shock of the transfer of ownership, the success of privatisation rests on whether there is a real change in management.

These changes in the business will in turn set a very different context for debates about the future of privatised companies.

A by-product of privatisation in the UK is the creation of a system of industry regulators, covering telecommunications, gas, electricity and water.

When this is combined with the powers of the Office of Fair Trading, the Monopolies and Mergers Commission, the Department of Health's regulation of pharmaceuticals and the influence of the Ministry of Defence over much of the aerospace and electronics industries, it is a formidable but rather unco-ordinated regulatory battery.

In the hands of a different Government it could become a powerful weapon. The issue of the 1990s may well be not who owns companies but how they are regulated.

Charles Leadbeater

Steve Ross used to run funeral parlours. Now he jets friends like Barbra Streisand and Steven Spielberg to his holiday house in Acapulco and is co-chairman of Time Warner, the world's biggest media and entertainment conglomerate.

Mr Ross, an ebullient 62-year-old with a well-known talent for "schmoozing," earns a lot more at Time Warner than he did handling limousines and flower arrangements.

In the next 10 years, Mr Ross will earn \$196m from a stock-based Time Warner package that emerged from last year's \$14bn merger-takeover of Mr Ross's glitzy Warner Communications by the staid and stately Time Inc. This figure does not include his annual salary of \$800,000 plus bonuses.

Not bad going for a Brooklyn-born plumber's son on his third marriage who grew up during the Great Depression, spent only two years at a junior college and began his career in the garment district of Manhattan as a salesman of women's bathing suits.

To talk to today, the plumber's son is surprisingly self-deprecating and down to earth. He is meticulous in cultivating personal relations, sending business associates turkeys at Thanksgiving and telephoning competitors to congratulate them on their deals. He has a keen sense of humour and reacts mildly — often candidly — to criticism.

Yet the easy-going manner can be deceptive. Steve Ross is a very determined man.

"My goal," he says, "is to create within five years the most successful media and entertainment company in the world."

PERSONAL FILE

1927 Born NY

1962 Merges family business with NY carpark company Kinney

1969 Acquires Warner Bros; changes company name; buys first cable television business

1976 Buys Atari video games

1981 Launches MTV and other cable ventures

1984 Sells Atari

1987 Starts merger talks with Time Inc; \$14bn merger deal announced in 1989

ious Time Warner businesses are important pluses in evaluating the company, synergies are a different matter.

"I grant you the businesses are very complementary," says Ms Goodchild, "but it will take time and work to accomplish anything significant in terms of increased cash flow from synergies."

Critics also point to the fact that last year's merger left the company saddled with \$10.5bn of debt. Merger-related costs, mainly interest, caused a \$255m loss last year for the company. And when Time Warner announced last week it would guarantee \$650m of bank loans that would enable Mr Giancarlo Parretti, the controversial Italian financier, to acquire MGM/UA, the Holly-

wood film and television studio, Standard & Poor's reacted by placing Mr Ross's company on its creditwatch list.

Time Warner's guerrilla, in exchange for distribution rights to MGM/UA films, is likely to be the factor that allows Mr Parretti to succeed with his \$1.26bn tender for MGM/UA Communications Inc.

The Time Warner-Parretti deal also offers insight into the character of Steve Ross.

Ross has few qualms about forming close ties with a little-known Italian entrepreneur who is even now appealing against a recent conviction in Naples for financial irregularities in relation to the collapse of a Naples newspaper.

The reason? He clearly wants to get his hands on the USA film library and its collection of James Bond, Rocky and *Plan 9* movies.

Ross is not unsettled either by debt or controversy. Mr Parretti, he opines with a grin, is a very likeable person and a visionary.

As for the \$10.5bn of debt, he points out that \$9bn of it is in bank loans which are serviced at rates below the US prime.

"I've also got cash flow of \$2.4bn, which covers our interest charges more than twice. No one seems to realise that. If I said our debt was \$900m and we had cash flow of \$240m you wouldn't worry, but add a zero or two and people worry," he says.

Ross may downplay the cost of debt servicing but he does admit that Time Warner's overall strategy has been set back about a year by the debt burden. He also agrees it will take time to integrate the management of Time and Warner, which have disparate corporate cultures.

This is an issue the two merged companies have handled with delicacy. Since the merger, Ross has been co-chairman and co-CEO of Time Warner with Richard Munro.

When he retires next month, "Nick" Nicholas, a veteran



'My goal is to create the world's most successful media company'

Time executive, will succeed Munro as co-chief executive.

The old-mannered Nicholas says: "Steve is a founder and I am not. Steve founded Warner and built it up and there are certain proprietorial instincts in a founder. Steve is more entrepreneurial than I am."

Other friends and colleagues describe Ross variously as "a dreamer" or a "corporate prince." Seated in his 29th floor midtown suite of offices — a huge palm tree and cityscape view of the Empire State Building behind him — Ross seems to like the first description.

"Left to my own devices I would be a long-term strategic planner, just working with the artists," he claims. Perhaps this, too, is a little deceptive. For Ross is also a corporate street-fighter who can be quite ruthless with his opposition.

A long-time friend calls him "the ultimate survivor," noting that he has triumphed over two divorces, one heart attack, terrible losses from Warner's Atari video game division, the threat of a takeover in 1984 from Rupert Murdoch and subsequent battles with Herb Siegel, a hostile Warner shareholder.

This is an issue the two merged companies have handled with delicacy. Since the merger, Ross has been co-chairman and co-CEO of Time Warner with Richard Munro.

When he retires next month, "Nick" Nicholas, a veteran

WEA record business into the biggest in the world.

Looking ahead, Ross lays great stress on his debt-reducing and globalisation strategies. He says he is "aggressively bullish" about forging links with European media and entertainment companies.

For the future, Ross's horizons are typically broad. "Any-one who says he can predict with any certainty the landscape is really fooling himself," he says.

"We have been inundated with offers from around the world and Europe is certainly exploding. The privatisation of television in Europe means that television correspondents can file from personal, hand-held transmitters. Think about the media and entertainment market in eastern Europe when they have market economies."

"Think about what could happen if China some day abandons Communism. Think about the demand for entertainment product and infant technologies that we are investing in such as laser discs and pay-per-view cable television."

Ross seems to be one entrepreneur who actually believes in his own PR. Witness his grandiloquent letter to Time Warner shareholders for 1989.

A new era in human history has begun, he concludes. "In spirit, if not in fact, we have already entered the 21st century. The world is our audience."

No need for anomaly of blasphemy laws



JUSTINIAN

gions (Lord Scarman has recently recanted). In so doing, he revived a debate that had remained quiescent for almost the whole of this century. By the end of the 19th century, the courts had detached the civil law from its uneasy union with the doctrines of a church which no longer exercised a monopoly of spiritual power in British society. In 1917, the House of Lords, when considering the issue of the validity of a charitable trust, underlined that division. Their lords held that the objects of a company were not criminal

Britain is not, and never has been, either ethically or religiously homogeneous

because of its denial of the validity of Christianity (the company was the Secular Society).

Three years earlier, the Attorney-General, Sir John Simon, had been asked by the Home Secretary for his opinion upon the state of the law of blasphemy. He concluded that prosecutions in modern times were extremely rare. And he recommended that the law should be amended to provide that complications, intended in good faith to propagate opinions on religious subjects, should not, in the absence of obscene or indecent matter, be deemed blasphemous.

It was pluralism that led Lord Scarman in his judgment in the Gay News case in 1976 to advocate extension of the law of blasphemy to cover all reli-

were predictions that, short of its abolition by Parliament, the law might still be sprung upon a hapless and unsuspecting defendant. And so it was. Until 1976, there had been only one prosecution for blasphemy in the whole of the century. In 1922, the Court of Criminal Appeal held, in effect, that causing offence to someone of strong religious feeling was not to be the true test of what constituted blasphemy: "the real issue is whether they might provoke a breach of the peace by anyone sympathetic to Christian ideals even though not a practising Christian."

The weapon of the law was unsheathed by the private prosecution by Mrs Mary Whithouse against the publishers of *Gay News*. It succeeded, although a minority of the judges in the House of Lords said that the publishers' intention in good faith not to offend was a defence. The revival of this anomalous crime did not sit easily with contemporary thinking. Prosecutors were interested in retaining the crime of blasphemy only where it impinged upon public order, where the law has a far more potent weapon at its disposal, such as the Public Order Act 1936 as brought up to date in 1986, and the race relations legislation.

The authorities have no need of a separate criminal offence, and would not wish to perpetuate its anomalous character by deploying it against the scurrilous detractors of Christianity.

Religious leaders adopt a similar approach. In a society with a plurality of faiths and a strong vein of agnosticism and atheism running through the body politic, the Church of England has much to lose in trying to assert its earlier pre-eminence by trying to breathe new life into relics of ecclesiastical law. In any event, the Anglican Church best demonstrates its traditional tolerance for the free expression of opinion by not becoming overfussed by attacks — even intemperate ones — on Christianity. Other religions would do well to emulate such a stoical attitude.

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SECTION III

FINANCIAL TIMES SURVEY

Economic success
and changes in
eastern Europe have
led to new foreign
policies that will find
expression in the EC presidency.
writes John Wyles. Yet this cannot
hide social and economic problems
at home, which are still too easily
eased by the nation's politicians.

Dynamic but deadlocked

HOW IS it possible at the same time to be extremely optimistic about Italy's future and frequently to despair of its present?

This question torments those many observers who are excited by the widespread evidence of social and economic dynamism in Italy, but depressed by a daily diet of political deadlock and malaise, crime, mafia crime, environmental pollution and crisis in public finances.

At times this continual bombardment invites the conclusion that Italy must be heading for a future of widening and deepening political corruption — probably manipulated by the mafia — governmental bankruptcy and declining social and economic standards. Such a national collapse is highly unlikely and would indeed be inconceivable were it not for the battle which is waging perpetually in the Italian character between the forces of self-destructive irresponsibility and those of responsible pragmatism.

There have been periods in the past 40 years when the darker, destructive side appeared to be gaining the upper hand. But now there is still fresh hope that the government which

Italians themselves firmly

terrorism, combined with shop-floor strife and economic mismanagement, seemed to threaten disaster. But pragmatism triumphed in the 1980s, and brought in a new era of economic growth and social stability, the fruits of which will be very much on display in the lavish and expensive production of this June's World Cup soccer tournament.

Moreover, Italian irresponsibility is not always destructive. If rules and regulations were slavishly applied and complied with then the thousands of small and medium-sized businesses operating within or at the margins of the black economy would not exist as employment and wealth-creating mechanisms.

Italy's extraordinary economic development over the last 40 years — in many ways no less an achievement than those of Japan and West Germany — has been made possible by that rich endowment of creativity, flexibility, improvisation and pragmatism, which also justifies real optimism about the country's future.

Certainly, Italians have been

readier than many to seize the opportunities, and to run the risks, evident in the opening up of eastern Europe. Fiat, for one, has set an impressive example with its commitment to act as midwife at the birth of a new, modernised Soviet car industry dedicated to meeting western standards in quality and fully accounted price.

Similarly ambitious, Mr Raul

Gartini's Ferruzzi group is involved in a very broad project to transform maize, soya and sugar-beet production in the Ukraine and to develop a food processing industry alongside it. Now that West German

industrial energies will be so absorbed in its eastern region, it is quite likely that Italian business ambition and aggression will snatch the leading role in exploiting commercial opportunities in eastern Europe.

Exporting continues to be a formidable Italian talent — in 1989 the country's manufacturers increased their shares of world markets for a range of engineering products. By investing in new processes and moving towards higher value-added products, Italian

manufacturers continue to prosper in markets for "traditional" products in leather goods, clothing and furniture, which analysts once thought would have to be ceded to newly industrialised countries.

This economic success, coupled with the changes in eastern Europe and the Soviet Union, is generating a new activism in Italian foreign policy — very much symbolised by the extremely self-confident, highly active Mr De Michelis.

With the opening up of eastern Europe and new attentive-

bustible materials which may easily ignite in the near future. Some politicians have long recognised that the problem lies in the absence of real accountability in the system of government, which is partly a product of a highly proportional electoral system which gives full expression to Italian political individualism, and partly of the difficulties of creating an alternative to more than 40 years of Christian Democrat-dominated governments.

The Italian Communist party's bid to present itself as a real alternative by abandoning its name and its Marxist ideology offers some hope of a political realignment on the centre and left which might offer Italians the opportunity to vote for a government when they vote for a party. But the process could still be a long one, and in the meantime the occupation of public institutions and agencies by the governing parties — principally the DC and the Socialists — continues apace.

The result of this *sotogoverno*, as it is called, is a near total lack of transparency and accountability, which is not helped by a judiciary that is dubiously compromised by political penetration. The relationship between business and politics, based on cash for favours, remains very much in the shadows, while formal legal attempts to allocate responsibilities for mafia murders, financial corruption and even an aircraft disaster, frequently fold in the face of superior political powers to cover-up the truth.

The need to make its politicians accountable is perhaps the greatest challenge facing Italy which, if not confronted, may progressively weaken the nation's capacity to deal with its many other policy challenges. But do the Italians want responsibility? For the moment, there is no reason to dispute the dispassionate and pessimistic judgment of Enzo Biagi, one of Italy's best journalists:

"We are full of passionless sinners. And this induces so much indifference among people. I don't think the Italians believe in anything. In the past, this country has shown itself to have, in the most tragic moments, great resources of generosity and courage. Now it is all greyness."

■ Occhetto's reformed Communists reach the penalty box, would Craxi award the knock-out goal against Forlani? See page 2

ITALY

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Politics

More needs to be done, and more quickly, to prepare the country for the European Community's open market — above all, in the realm of public finance. But the scent of the hustings may mean the delay of important choices.

■ Mr Andreotti closes an era of DC-Socialist conflict.
■ Mr Occhetto's dream party would capture between 30 and 40 per cent of the vote.
■ The Pope's dream Europe would stretch from the Atlantic to the Urals.

ITALIAN POLITICS are rarely easy to analyse, and even less easy to predict. However, here are three forecasts and one observation about the five-party coalition headed by Mr Giulio Andreotti, which was sworn in last July...

□ This will be the last Christian Democrat (DC)-led government before the next general elections.

These elections will certainly take place before the full parliamentary span expires in 1992; □ The Communist party's (Pci) attempts to relaunch

Stability on the wane

itself could even trigger an election this year; and

□ The coalition's stability is diminishing, because of sharp divisions within the DC.

Elections pump more stress into a political system that largely functions on stress. Local-government polls next month could tempt the coalition parties (the DC, the Socialists, the Republicans and the Liberals) to go for an unusual October election — if the Communist vote is in decline and theirs (the DC and the Socialists) is the ascendant.

But the scent of the hustings is not the only reason why the Italian political system is under strain. Another is the acknowledgement that more needs to be done, more quickly to prepare Italy for the European Community's open market — above all, in the realm of public finance, where the aim of bringing the Gov-

ernment's deficit under control is inexorably pushing the parties towards difficult choices on health and welfare which have hitherto been evaded.

Less improbable is a sufficient increase in support for the new party of the left that the Socialists might feel the need to join it in opposition and leave the DC to govern on a minority basis. Such a scenario would increase the likelihood of a broad-left alliance, between the new party and the Socialists, at the next election but one.

What is most likely is that electors might conclude that the new party is the old Pci under a different name and continue to drift away. This would probably strengthen the fragmentation of parties — something already 14 in the parliament — and leave the DC and the Socialists to continue running the country.

John Wyles

Tensions are beginning to show

GUILIO ANDREOTTI's return to the prime minister's offices in the Palazzo Chigi last July in many ways marked the end of an era, without clearly signifying the start of a new one.

Within his own Christian Democrat party, the Andreotti premiership signified the final eviction from power of Mr Bettino Craxi, who had led the DC for seven years until February.

THE COALITION

ary 1988; while it also symbolised a more relaxed and confident relationship with Mr Bettino Craxi's Socialists.

Finally, it promised a more effective period of government, both because of the new harmony between the coalition's two main parties, the DC and the Socialists, and because there is no one more skilled than Mr Andreotti at reconciling differences.

Within three months, the CAF had made its debut as a new political phenomenon in Italy. Craxi-A(ndreotti)-together with the third member of the trio F(iorani) appeared to have reached a sufficiently solid understanding as to impose an unusual and rather disturbing tranquillity over Italian politics. This was mainly possible because Arnaldo Forlani, who suc-

ceeded Mr De Mita as DC secretary, was much less disposed to confront Mr Craxi as his predecessor had done and, therefore, was much more trusted by the Socialist leader.

If Mr Andreotti was seen as closing an era of DC-Socialist conflict within governing coalitions, he was also seen as being the third and last credible DC prime minister of the current parliament. One of the CAF's unspoken founding agreements is that the parliament would be dissolved for elections in June 1991 — a year before its natural expiry.

According to this scenario, Mr Craxi would take over as prime minister after the next elections, while Mr Andreotti may even be a candidate to succeed Francesco Cossiga as president of Italy in mid-1992.

This script has not been abandoned, but it is now less clear whether the principals will be able to stick to it, for at least three reasons.

The first is that Mr Achille Occhetto's bid to relaunch his Communist party as a new democratic socialist force has introduced a new and potentially destabilising element into the political process. The second is that intra-coalition tensions, which would normally be induced by the approach of nationwide local

government elections in May, are being exacerbated by unexpectedly sharp disagreements over policies. The third is that Mr Andreotti is clearly failing to make headway on any of the priorities he set for his coalition in his programme speech.

Having secured the passage of the 1990 budget by last December 31 — which is a major effort for any Italian government — the Andreotti coalition is steadily losing its way. The fight against the Mafia, a key priority of last summer, is languishing in a mire of politically-inspired attacks on the Anti-Mafia Commissioner, Mr Domenico Sica.

The budget deficit target for 1990 has become, evidently, unattainable within three months of its adoption without fresh action on revenues and spending. Reform legislation on anti-trust, financial markets, media concentration and drug trafficking is making very little headway, while monthly cabinet meetings on European Community issues have failed to materialise since they were promised last July.

Characteristically, Mr Andreotti has sought to minimise the importance of such political conflict while rejecting complaints about his government's performance. A source of some encouragement

John Wyles

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ITALY 2

La Cosa's triple plan

A DESIRE to achieve a genuine alternation of governments prompts many Italians to wish the Communist party well in its attempt to refund itself as a democratic party of the left.

But a recognition of the limitations of Italian politicians, and of the characteristics of the Pci itself, leads many to doubt whether the exercise can succeed.

Mr Achille Occhetto, the Pci leader, has a dream of launching

a new party ("la cosa") as Mr Occhetto's new party is known, since it will have no name until a final congress launches it at the end of the year.

It is difficult to see how the Socialists could avoid being overshadowed and squeezed by a larger, non-communist socialist grouping.

Which is why Mr Craxi is sending clear signals to the Communists that unity of the left can only be based on a different political order centred on direct election of the President of the Republic or of the prime minister, greater regional autonomy and, possibly, electoral reform.

Mr Occhetto's strategy is built on three legs: creating a democratic party of the left, dedicated to liberty and justice; securing its external endorsement and respectability through membership of the International Socialist movement; forging an electoral alliance on policy with the Socialists, without losing 15 per cent and a newly rising share of the vote to an alternative majority.

In every sense, the Socialists are central to the construction of these three pillars. La Cosa would not be allowed into the International Socialist movement; nor will the new party be abandoned for La Cosa, is based on the same of being a qualitatively different party which has made fewer corrupting compromises in the pursuit of power, and which seeks to mobilise dissent and discontent.

with the existing political and economic system.

While two thirds of this party voted with Mr Occhetto at the party's March congress, at Bologna, a very strong one third opposes both his strategy and the apparently liberal democratic values which inspire it.

In order to hold his party together, Mr Occhetto has already been forced to make concessions on issues such as the future of a united Germany

— outside Nato and demilitarised — which are far distant from Socialists' positions, and he will surely make others on economic and social policies.

He will then run the risk, both with Mr Craxi and with the wider public, of creating the impression that his new party is merely the old Communist party — admittedly, in more genuine democratic clothing, but still narrowly class-based in its view of the world and more committed to "struggle" than to government.

Mr Craxi would try to exploit such an impression, believing that the post-Communist Pci vote will continue to erode and that time and patience will enable him to lead the Italian left from a dominant, rather than a subordinate position. In the meantime, he would continue to augment Socialist power in Italian institutions by partnering in government.

John Wyles

COMMUNISM

ing a "new" party capable of holding the Pci's soul, if not

majority, support among the northern urban working class, but which also attracts votes from progressive catholics, middle-class professionals, small shopkeepers, women of all denominations and the elderly youth.

This group is not only pressuring such matters as anti-trust, but is also encouraging its allies in the media — notably the top-selling La Repubblica newspaper — to focus on the less visible and frequently perplexing aspects of Mr Andreotti's stewardship.

The DC left may become a smoking gun to encourage any attempt to bring down the coalition.

Bettino Craxi remains, however, the man most likely to accomplish this task if he concludes that there is an advantage to be had from general elections later this year.

With an eye to the local polls, Mr Craxi manifested clear dissatisfaction with the Government's performance at his party's Rimini congress last month, and a readiness to use the split in the DC as a pretext for walking out of the coalition.

Interestingly, two of the eastern bishops appointed are well over the normal Vatican retirement age of 75 — a condition which has been waived in recognition of their sufferings for the church.

But the greatest coup was the announcement, just over a month ago, of the exchange of ambassadors with the Soviet Union, restoring diplomatic contacts for the first time since 1923. The Pope has also received the coveted invitation to visit Russia. This was perhaps a foregone conclusion, after the moving encounter between the two heads of state in the Vatican on December 1; but it is still a triumph, and brings the Pope one step nearer to the realisation of his vision of a united Europe, stretching from the Atlantic to the Urals.

This is a vision he shares with his secretary of state, Cardinal Agostino Casaroli, who has held the post since the Pope's election in 1978, but has been concerned with maintaining contact with the socialist regimes, including China, for 20 odd years.

Casaroli and Wojtyla are very different in personality: the Pope passionate, extrovert and decisive; his secretary of state, restrained, flexible (up to a certain point) and diplomatic. Both are exceptional linguists. Casaroli celebrated his 75th birthday last November, and although cardinals do not have to retire until 80, a young and energetic deputy has already been appointed for him: the energetic Brescian Monsignor Giovanni Battista Re.

Monsignor Re takes the place of the Australian bishop Edward Cassidy, who, as a "close collaborator" of the Pope, was needed to take charge of key negotiations on the restoration of full religious rights to the Ukrainian Catholics, about which the Pope feels strongly.

A new star in the east

FEW HEADS of state can claim such spectacular successes in foreign policy during the past year as Pope John Paul II.

Diplomatic relations with Poland and Hungary have been re-established, and the Church in Czechoslovakia has been restored to full strength for the first time since the war.

In mid-March, the Vatican put the Romanian church back

THE VATICAN

on its feet in one fell swoop, appointing 12 bishops in a single day, thus restoring the Roman and Eastern rite churches there to their pre-war strength. Stalin's 1942 decree had not only prevented Catholics in Romania from worshipping freely, but had forcibly incorporated the Eastern rite Catholic church into the Orthodox.

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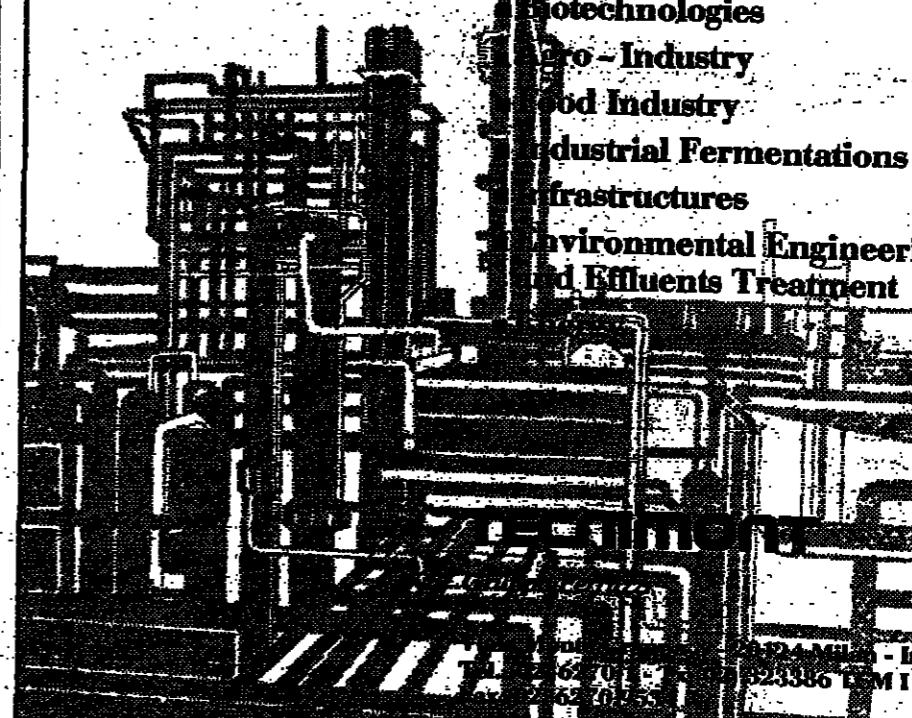
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And he's been invited back...
with recompense". This was an indication of Vatican distaste for the uncouth use made by that party of Catholic youth groups.

Jennifer Grego

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Foreign policy

Presidency of the EC could enable Italy to give a push to the European integration process, and provide a framework for managing German unification. Those who'll take the stage include:

- A prime minister who has known the world's top leaders of the past 35 years;
- A foreign minister who sees a unique role for his country; and
- A treasury minister with four languages and few detractors.

ITALIAN EFFORTS, clearly evident during the 1980s, to develop a more active and influential role in international affairs will reach a climax from July 1, when Rome takes over the presidency of the European Community.

The platform is one which will be relished by the two men who are currently managing Italian foreign policy: Mr Giulio Andreotti, foreign minister for most of the 1980s and now prime minister; and Mr Gianni De Michelis, the flamboyant, reflectively vivacious Socialist who succeeded Mr Andreotti at the Foreign Ministry last July.

They make an odd couple: Andreotti, the deeply experi-

A platform to relish

enced "old wolf" who speaks in aphorisms, and De Michelis, the formidable self-confident foreign policy novitiate who is a compulsive communicator.

Both are anxious that the Italian presidency should be seen as giving a push to the European integration process — not just as a desirable end in itself, but also as a framework for managing German unification.

Preparing the intergovernmental conference on European Monetary Union, which is due to open in December, will be one of the key tasks on this front. But Rome is also seeking to force the pace on integration with a proposal, supported by the European Commission, that a second intergovernmental conference sit in parallel to negotiate, among other things, additional powers of control and surveillance for the European Parliament.

Mr De Michelis has been more than a little resentful about Italy's exclusion from the "two plus four" formula

which will directly involve the wartime victors in discussing German unification with Bonn and East Berlin. He will continue to argue that the international imprimatur for unification, and the related issues of borders and the future of the Nato and Warsaw Pacts, must be finally settled within the frameworks of the Helsinki process and of the Conference on Security and Cooperation in Europe.

Italy is not been slow in developing its own lines of communication and commercial interests with Moscow and east European capitals. A system of regular meetings at Foreign Ministers' level between Moscow and Rome was agreed during Mr Gorbachev's visit to Rome last November, while a quadrilateral relationship, agreed in the same month with Austria, Hungary and Yugoslavia, is a new Italian attempt to launch regional co-operation.

Czechoslovakia may soon join this grouping, which aims to develop economic and technical co-operation and a

relaxation of travel restrictions. Mr De Michelis' purpose is to bind eastern European countries as closely as possible to western Europe's economic and political structures, according to the concentric-circles concept. This postulates a politically unified EC at the centre of a collaborative system which has the EEC countries and then eastern Europe as orbiting satellites.

Rome is constantly stressing that its European preoccupations will not relegate relations with the Third World to some lower order of priority. Italian governments have made a huge effort in recent years to bolster their aid programmes, which are now near in total volume after the US, Japan, France and West Germany. Budget deficit problems decree, however, that aid to developing countries must fall as a proportion of national gross domestic product from 0.4 per cent in 1988 to 0.3 per cent in 1992.

John Wyles

A pivotal role in Europe

ers, he says that "the UK is in a difficult position, feeling marginalised and oscillating between what was once a special relationship with the US and a fuller involvement in Europe's institutions."

At this particularly delicate moment in its history, he is convinced that Europe is especially fortunate to have Italy in the cockpit, rather than any other of its leading powers.

He is a little troubled that Rome's credentials as a Community leader carry an ugly blemish in the shape of the 200 or so EC directives that have still not been converted into Italian law. But he hopes this will be remedied by the autumn, albeit some months after Italy takes over the presidency from Ireland on July 1.

Mr De Michelis' will be the principal role in managing Community business in the general affairs council (made up of the 12 foreign ministers) and in co-ordinating Italy's handling of the specialised councils. Italy is in an especially fortunate position to play this role, he said, in an airborne interview en route for meetings in Madrid — the only moment that could be found in his extraordinarily crowded schedule.

For Italy's "fortune", one should read Europe's. Ticking off the EC's other leading pow-

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ITALY 3

Indifferent to criticism

WHEN GUIDO Carli was sworn in as Italy's Treasury Minister last summer, he said that his advanced age — he was 76 on March 28 — would enable him to make unpopular decisions without undue concern.

"I've already had my career... My duty will be to disregard unpopularity," he

determines top public bank appointments? And why hasn't there been more progress in halting the erosion of Italy's public accounts? Overall Italian public debt now exceeds L1m billion, equal to 99 per cent of GDP (expected to rise to 100.5 per cent by the end of the year).

The 1990 Italian Budget Law officially limits the public sector borrowing requirement to L133,000bn, a shade less than last year's final deficit. But continued growth in government spending has led to forecasts that this year's deficit may run as high as L147,000bn.

The blame, of course, cannot be laid entirely at Mr Carli's door. His call for privatisation of the Bank of Italy's non-productive real estate and financial holdings reflects his awareness of the underlying problems that plagued his predecessors: too many Italians are not paying their taxes, and cabinet ministers and political parties are still unwilling to put a firm lid on both spending and public sector salaries.

Controversy is not new to Mr



"I've already had my career"

Carli. After leaving the central bank, he served for four years as president of Confindustria, the Italian manufacturers' association. The question is how long he will be willing to put up with the current job's obvious frustrations.

Unlike the states, his own personal finances are in excellent condition. Before returning to public life last year, he was a main board member of Fiat and a consultant for several foreign banks. Combined with his generous Bank of Italy pension, these activities reportedly gave him an annual income of more than L1bn.

Sari Gilbert

Harmony before change

tives should be to introduce full majority voting on all matters where it is allowed for in the current treaties, and to increase the European parliament's powers of initiative and its control over the Commission.

Mediterranean policy and immigration also loom large in Italian ambitions. Italy and the European Commission seem to be at one in believing that the 12 must channel more aid for economic development to the countries around the southern Mediterranean littoral — not least because Europe in general, and Italy in particular, wish to limit those countries' emigration flows and will probably impose entry-visa requirements on their citizens later this year.

Mr De Michelis also would like to line up the Community behind his idea for a "Mediterranean Helsinki", which would launch a process for widening individual and social liberties in the area as well as military detente.

The Italian foreign minister says he sees the Community presidency task as one of being "the director of an orchestra". Not even a year ago could anyone have believed that the musical score would have been quite so complicated or needing a tempo of allegro vivace.

"A MIDDLE way has to be found" is the guiding spirit of Italian politics, and there should be no surprise that the nation's finest exponent of this philosophy should have been the man who uttered these words in December.

Now heading his sixth government, Giulio Andreotti is the master of mediation who has built his 43 years, close to or in the senior offices of State, on the necessity of finding "the middle way" between conflicting interests.

It is an impulse which also finds fine and full expression in European Community politics. As Italy's foreign minister, Mr Andreotti's management of the EC's General Affairs Council during the last Italian presidency, in 1985, drew many plaudits for his ability to conjure agreement out of conflict.

As prime minister, the 71-year-old Christian Democrat is not one for the impatient, nor necessarily one for a country which needs legislative changes in a hurry. He is rarely a man to hurry his search for compromise, believing that there is a rhythm in

politics which must be respected. People and institutions in conflict, he believes, eventually arrive at a sense of their common interests.

There are no more acute powers of political judgment in Italy, where governing coalitions are condemned to frequent internecine warfare. Mr Andreotti's style of managing conflicts is to minimise differences and avoid frontal confrontations. If the policy outcome is ineffectual or incoherent, then so be it.

On the foreign policy front, there is no more experienced politician in Europe, since he has known all the world's top political leaders of the last 35 years. As foreign minister for most of the 1980s, he successfully carved out a measure of autonomy for Italian policy, particularly over Middle East affairs, but also in relations with the superpowers. He firmly believes in the need to maintain the US commitment to security in Europe, and can find no enthusiasm for German unification, which he sees as further strengthening an already overwhelming case for European political integration.

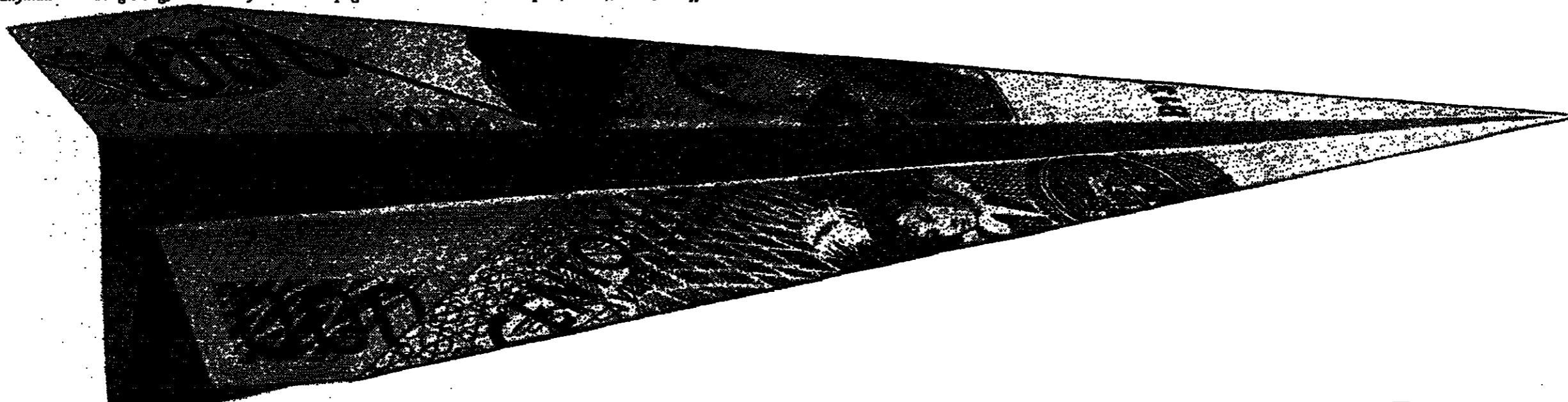
John Wyles

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Economic Challenges

A new attack on spending and revenues is likely in May, but whether it will eliminate the L14,000bn expected overrun on the L133,000bn budget deficit target remains to be seen.

■ Public spending remains the problem. The Government will need to stick to its deficit-cutting guns.

■ Reliance on electricity imports continues to make Italy vulnerable.

THE ITALIAN economy is a like a brave stelechaser, somewhat careless in its approach to obstacles which are always threatening to bring it down.

The fact that Italy has managed to grow at a rate of around 0.5 percentage points above the EC average over the last seven years is certain testimony to the economy's quality. At the same time, decisions to free all capital movements by July and to put the lira into the European Monetary System's narrower 2.25 per cent fluctuation band in January testify to Italian ambition to stand on equal terms with the other large EC economies.

However, there are certain obstacles above all public finances, which pose more difficult tests as each year passes. Upward movements in domestic and international interest rates are putting a heavy toll on government debt raising and servicing —

The jumps are getting higher

Interest costs rose 20 per cent last year and are already forecast to go up by 17 per cent this year without any further increases in international rates. A new attack on spending and revenues is now likely in May, but whether it will eliminate the L14,000bn expected overrun on the year's L133,000bn budget deficit target (10.4 per cent of GDP) remains to be seen.

The impact on the deficit of negotiations on new pay contracts for employees in the public administration is still uncertain. The Government is committed to giving no more than one percentage point above expected inflation, but it rarely succeeds in holding the line on such matters. The Bank of Italy forecasts 3 per cent rises in public salaries this year and is worried about the way in which this is emerging as a target for private sector pay deals in key sectors.

While the Government has just raised its inflation forecast for this year from 4.5 per cent to 5 per cent, Confindustria, the main representative of Italian industry, has been preparing the ground for this year's pay round with frequent warnings about rising

John Wyles

EVEN BEFORE Mr Franco Vizzoli, chairman of the state electricity corporation ENEL, admitted to the Senate Industry Commission in February that Italy had become dependent on imports, it was clear that energy, and particularly electricity, was a high-risk factor in the economic-industrial equation.

Last year, Italy imported 23.7 terrawatt-hours, covering 14.7 per cent of its total electricity demand of 259.1tWh. Imports registered an increase of 7.7

ENERGY

per cent on 1988, and were more than five times greater than at the start of the decade. Electricity purchases from neighbouring countries, which increased sharply in the mid-1980s when cheap French electricity made better economics than producing with domestic capacity, are now necessary to ensure supply continuity.

However, Mr Vizzoli is not alone in expressing concern. Warnings about the precarious condition of electricity supplies come also from the Minister of Industry, Mr Adolfo Battaglia. With ENEL's peak load rising by 1,300 megawatts to 35,500MW last year and capacity only increasing by 6,000MW, he believes the corporation's ability to meet peak demand is placed in question.

One side of the problem faced by Italy's electricity industry is demand. This has moved ahead more sharply than expected, the increases of 5.1 per cent in 1988 and 4.1 per cent last year being about 50 per cent above the national energy plan's forecasts.

When picking up shut down

Dependent on the neighbours

until the capacity gap is closed. An emergency programme for repowering thermal units with gas turbines was approved at the end of 1988, and the rebuilding of Montalto di Castro as a conventional thermal plant is under way.

However, the benefits will only start to be felt in 1992, provided that the higher forecast for the year 2000 is too low.

Italy consumes much less per capita than its neighbours. Although the plan foresees an increase in per capita consumption to 6,500 kilowatt-hours at the end of the century, from the current level of about 4,000kWh, this will still be less than in France and West Germany in the mid-1990s.

The other side of the problem is Italy's own supply capacity. In halting production from its three nuclear stations at the start of 1987, it deprived itself of 1,300 megawatts capacity.

And the subsequent abandonment of the incomplete 2,000MW nuclear station at Montalto di Castro, north of Rome, aggravated the shortfall.

ENEL has, however, also faced serious difficulties in pushing ahead with its construction programme for conventional thermal plant. As the sagas of the multi-fuel plants at Brindisi South and Gioia Tauro have shown, few Italians want power stations in their neighbourhoods.

When picking up shut down

the operational station north of Brindisi last year, there were checkboard power-cuts in southern Italy. But electric black-outs are a national threat

imposed by cross-border transmission lines, whose capacities are reaching saturation. And should France encounter problems with its nuclear plant, Italy would also suffer.

Talk of power-cuts has focused attention on the electricity sector, and Italy's overall energy situation has tended to slip from view. That 1988's national energy plan still awaits parliamentary approval reflects absence of concern.

Little has changed since energy awareness was heightened during the 1970s oil crises. Imports continue to satisfy 80 per cent of overall energy requirements; imported hydrocarbons covering about 70 per cent. Aiming to reduce this high dependence, the state hydrocarbons holding corporation ENI will invest £4,500m

over the next three years on developing the country's scarce indigenous resources.

ENI's chairman, Mr Gabriele Cagliari, notes that Italy's energy demand rose by 2.6 per cent last year, to reach 161.5m tonnes oil equivalent. However, in spite of demand growth and high imports, soft crude oil prices and a weak dollar mean the balance of payments suffers less now than at the start of the past.

Though the threat of blackouts seems to be stimulating action in the electricity sector, real power-cuts needed to generate a greater sense of urgency. Putting Italy's overall energy accounts in order will probably have to wait until the next world energy crisis.

David Lane



Would power-cuts create a sense of urgency? Industry relies heavily on imported electricity

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New rules helpful to the lira

CONTRARY TO expectations, this year's bold steps by the Italian Government, to ease restrictions on residents buying short-term foreign securities and to narrow the lira's fluctuation bands within the European Monetary System, have not triggered the wave of flight capital or run on the currency that was once feared.

Indeed, the measures have, if

CAPITAL LIBERALISATION

anything, bolstered confidence in the lira, and in Italian economic management in general, despite continuing disquiet about the Government's willingness — or ability — to trim its huge budget deficit.

According to Mr Giles Keating, of Credit Suisse First Boston, in London, the positive market reaction to January's moves by the Italian authorities recalls the favourable response when the UK and French governments removed exchange controls in 1979 and the late 1980s respectively.

"Italy actually fits into the pattern," he says, noting that the Italians have followed the

trend of using the carrot of continuing high interest rates, rather than the stick of exchange controls, to maintain confidence in the currency and prevent a rush abroad.

Likewise, the decision to "normalise" the lira's EMS fluctuation bands to +/− 2.25 per cent of the central rate, rather than 5 per cent as before, has also been taken as a statement of confidence, which has so far had a favourable echo in the markets.

The lira was already one of the stronger performers in the EMS for much of 1989, until, in December, the central bank apparently dropped its policy of maintaining the "shadow" 2.25 per cent fluctuation band, pursued with considerable success during the year, to the extent that the Italian currency had at times proved embarrassingly strong against the Deutsche Mark.

Meanwhile, liberalising exchange controls has been a step-by-step process, ahead of the European Community's July 1 1990 deadline. An important milestone came in October 1988, when Italian residents were given the green light to

buy longer-term foreign securities. At that time, the decision to continue banning purchases of shorter-term instruments, defined as those with a maturity of less than six months, was explained by concern that such securities were barely distinguishable from legal tender, and therefore a speculative investment.

The decision, in mid-January, to remove the barrier on buying short-term instruments followed a move just a few days earlier to abolish the ban on Italian citizens owning, for more than 120 days, any foreign currency acquired in return for the delivery of goods and services abroad.

As a result, only two restrictions remain to go before the July 1 deadline. Residents still cannot open foreign bank accounts; while there remains a ban on owning, for more than 120 days, any foreign currency bought directly in exchange for lire.

Many economists expect both restrictions will be dropped before July 1, with most bets on this month or next. The delay stems from the

steps to remove capital controls.

But the consensus remains that something must be done about the budget deficit, which already looks destined to overshoot the L133,000bn target for the year — in order to set the seal on Italy's financial "normalisation" within the European Community.

The signs are that the economy is slowing a little, with GDP growth likely to fall this year, below the almost 3.6 per cent we estimate for last year," notes Mr Nigel Rendell, of James Capel, in London. "And the trade figures also improved in the second half of last year."

Public spending remains the problem. Although the percentage share of the government deficit to GDP is set to drop to 10.4 per cent this year, from 11.1 per cent in 1988, the Government will need to stick to its deficit-cutting guns if the market is to be convinced. For that, in the end, will be far more important a criterion in shaping the market's response to Italian economic management than any amount of exchange control liberalisation or changes to the lira's EMS band.

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The shape of fairs to come

Financial Challenges

Italian banks are only at the beginning of a long, and undoubtedly painful, adjustment period.

■ But new rules should enable them to become broad-ranging holding companies, grouping financial services activities directly under the parent company.

■ The Enimont affair has done little to boost the already tarnished standing of the Milan bourse abroad.

LAST YEAR is likely to mark a profits record for Italy's big banks. Sustained economic growth, amounting to a 3.3 per cent rise in GDP in 1988, has spurred lending, while the Bank of Italy's high interest rate policy has allowed the banks sustained, and indeed enlarged, margins that remain the envy of Europe.

The upshot is surging profitability. Banca di Roma, the smallest of the three commercial banks controlled by the tri-state holding company, more than doubled its net profits to L88bn in 1988; Credito Italiano and Banca Commerciale Italiana (BCI) are raising their dividends; and Mediolanum, the merchant bank at the heart of so many capital market deals, raised pre-tax income before provisions by no less than 45 per cent in the second half of the year.

Even troubled Banca Nazionale del Lavoro, which is still smarting from last year's letters of credit scandal at its Atlanta branch, is bullish about its prospects. Despite a massive L495bn loss for 1988, largely on account of the need for additional provisions, the outlook for domestic banking is excellent, it says.

Yet beneath the euphoria, Italian banks are only at the beginning of a long, and undoubtedly painful, adjustment period. For Italian banks' growth remains inefficient at the standards of many of Italy's north European neighbours, with overstatement and a need to rationalise the current 1,200 banks with over 13,600 branches in order to create bigger networks, thereby cutting costs, and improve the opportunities for cross selling between products.

Rigidities within the banks have in the past been exacerbated by the central bank's rules. Though a paragon of independence and professionalism in an increasingly politicised financial system, the Bank of Italy's own strict rules – finally relaxed at the end of March – on new branch openings or rationalisations

Euphoric but inefficient

have hampered change.

Yet despite the eccentricities of the Italian system, foreign interest remains as strong as ever, if not stronger. The \$800m that Deutsche Bank paid in December 1988 for Banco d'America d'Italia now looks cheap against the \$300m shelled out last summer by Crédit Lyonnais for just 49 per cent of Credito Bergamasco, a solid Lombardy bank. If the level of outside interest stays at present levels, even that may seem a bargain in time.

But foreign banks looking to establish a bridgehead in Italy before 1992 need more than just fat cheque-books. For the high prices are grounded on the fact that low banks in Italy are for sale.

The Andreotti government's apparent antipathy to widespread privatisations – a policy which once found more sympathy within the Christian Democratic party – means that opportunities for breaking into the dominant state banking sector are virtually non-existent. Thus West Germany's Commerzbank and Banco Hispano Americano of Spain are still waiting to invest in Banco di Roma as part of a wider restructuring of its ownership. Despite a massive L495bn loss for 1988,

the lack of acquisition opportunities is even greater in the private sector. After almost falling victim to an apparent attempt to pave the way for BCI to take a sizeable stake late last year, Banca Ambrosiano Veneto has settled down to a shareholding structure which gives Crédit Agricole, its new French shareholder, 10-to-12 per cent of its equity but little chance of more.

But, even were the field wide open, Italy's banks are demanding more than just cash from those seeking to take stakes. For the biggest banks are increasingly stressing the need for reciprocity as the price for selling a share to a European counterpart.

Such concern reflects a belated recognition that Italian banks have been pre-occupied with their domestic market for too long. Lack of capital and domestic political infighting have been obstacles, but, apart from a few niche products like Ecu bonds, Italian institutions have hardly matched their big German, French or UK rivals

Haig Simonian

Harsh light cast on the equity cowboys

FOR INVESTORS used to the US, UK or even the West German stockmarkets, the recent struggle for control of Enimont, the joint-venture chemicals concern linking public and private sector interests, has been an object lesson in what is wrong with market practice in Italy.

Investors who bought some of the 20 per cent of Enimont's

REGULATION

shares, issued in last summer's international placing, have become idle spectators as Eni, the state-owned energy group, and Moncini, the quoted chemicals company controlled by Mr Raul Gardini, have pulled a series of rabbits out of their respective hats in the battle for control of the group.

So far, all the proposals have included sudden surprises for large capital increases and apparent concert parties of investors in attempting to buy into the free float. And all of these moves have taken place against continuing rumours of manipulation of the share price and periodic disinformation.

The Enimont affair has certainly thrown a harsh light on the cowboy side of the Italian equity market. Moreover, the fact that the initial public offering involved so many foreign investors has done little to boost the already tarnished standing of the Milan bourse abroad.

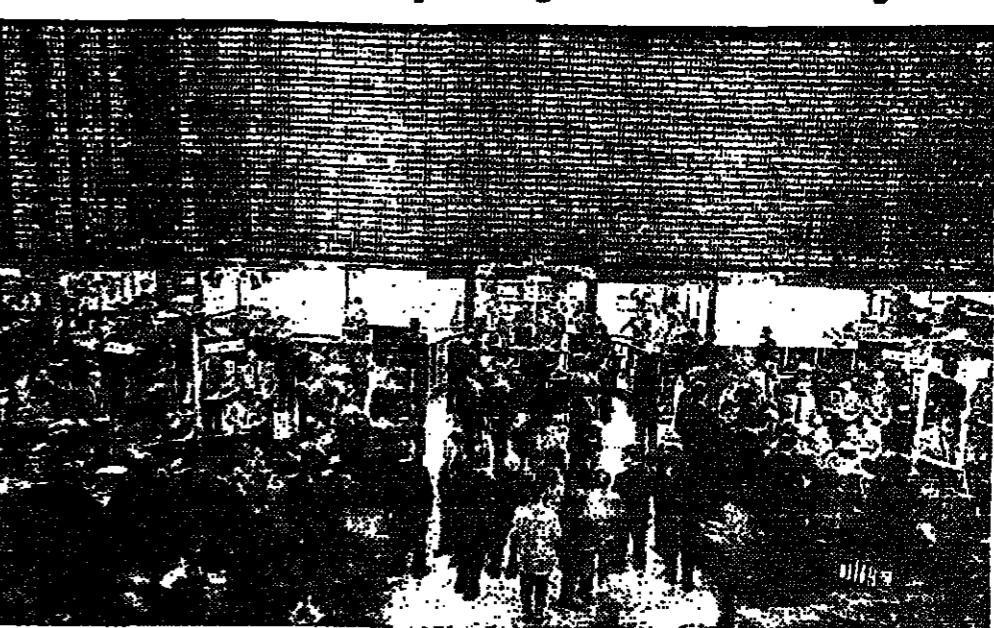
Those hoping for change still

look to Brussels for inspiration. A package of legislation, prompted by the need to bring Italian practice into line with that in other European Community countries, is still awaiting approval into domestic law. Among the measures currently before the Italian parliament are steps to reform Italy's banking, stockmarket and monopolies laws, as well as new legislation on the role of financial intermediaries.

So far, all the proposals are victims of the current political logjam in Rome. The delay in turning the plans into reality lies partly in the complexity of some of the issues at stake, and also in the political horse-trading required within the five-party ruling coalition before any legislation which is so politically loaded can be enacted.

Much of what is pending is of immediate relevance to the stock exchange. While the rules on financial intermediaries – known as Sims in Italian – is grinding its way through the legislative process, most of the remaining proposals are becalmed.

The law on Sims will reform current rules on participation on the floor of the stock exchange, creating an Italian "mini-Bang", and paving the way for banks to play a more direct role on the bourse. As matters stand, only about 30 per cent of business is carried out on the floor of the Milan exchange, with the remainder



Only about 30 per cent of business is carried out on the floor of the Milan stock exchange

conducted over the counter between the banks. Moreover, the proposals contain important additional clauses, including provisions opening the door to futures and options trading in Italy.

However, a date for passing the Sims law remains uncertain, pending the continuing need to settle two key issues:

the division of supervisory responsibilities between the Bank of Italy and the Consob, Italy's stock exchange authority;

and the still unresolved row between those calling for the new rules to go into immediate effect, once the law is passed, and others seeking a two-year transition period.

While the optimists hope that the new rules on Sims will be approved by the end of this year, sceptics point to previous false hopes.

New rules on insider trading have been examined by the finance committee of the lower house, but have still to be

dealt with after the law on Sims.

Haig Simonian

Amato law will mean stronger capitalisation

IN THE attempt to boost the standing of Italy's biggest banks and make them more competitive internationally, no initiative stands out more than the Amato law, named after its instigator, Mr Giuliano Amato, a former treasury minister.

The proposal – which should clear parliament by the

formally completed. Meanwhile, the creation of Banco Ambrosiano Veneto, more simply known as Ambroveneto, is already a foregone conclusion. Forged through the amalgamation of Nuovo Banco Ambrosiano with its majority-owned subsidiary, Banca Cattolica del Veneto, the new institution is now Italy's largest private bank.

While some smaller banks have also merged, notably in the co-operative banking sector, some of the biggest have been expanding. Apart from buying into Banco Liriano and Banco Provinciale Lombardo, in the late 1970s and 1984 respectively, San Paolo di Torino last year spent \$725m on a 40 per cent stake, since expanded, in Credilop, the medium-term credit institution. Meanwhile, Monte di Paschi di Sienna has also been strengthening its position through regional acquisitions.

Talk of the Turin and Sienna banks' merging to create an Italian "superbank" to rival top European counterparts like Deutsche Bank or Banque Nationale de Paris, is now dis-

Wherever it is, we'll find it.

Meanwhile, the second main provision of the Amato law should enable all the banks to become broad-ranging holding companies, grouping financial services activities directly under the parent company.

The benefits in terms of capitalisation should not be underestimated – especially for Italy's weakest public-sector banks. In the case of Banco di Napoli, one of southern Italy's two largest banks, the Amato law should pave the way to L900bn of new capital, allowing it easily to exceed the L400bn-L500bn which it needs to meet the Bank of Italy's capital adequacy requirements.

Meanwhile, Banco di Sicilia, its large southern counterpart, will be allocated some L560bn, although that will only just cover the amount by which it falls short of the central bank's guidelines.

While the Amato provisions slowly make their way into law, the market is providing its own discipline to the banks through a small, but growing, number of mergers.

Only at the end of this year will the May 1988 acquisition by Cassa di Risparmio di Roma, the country's second biggest savings bank, of Banco di Santo Spirito, forming Italy's seventh largest bank, be

Estimated capital ratios: end 1989 (8 per cent minimum equity/risk assets)	
BCI	8.5
BNL	8.5
Agricoltura	8.8
Roma	8.0
Credito Italiano	10.0
Ambroveneto	12.0
Liriano	14.0
Credito Commerciale	12.0
San Paolo di Torino	8.0
Popolare di Milano	8.0

Including general provision
Source: Morgan Stanley Research

missed all round. "If we are obliged to merge with anybody, it will be with one of the two big southern banks," says one senior official at the Siennese bank grimly.

Meanwhile, executives at San Paolo reject any hint of merger at all, and talk instead of developing their bank into one of the top names in Europe. "We look forward to the day when our name will be mentioned in the same breath as Deutsche Bank," says one. "But we realise it will take a few years yet," he adds.

Haig Simonian

OIL. Wherever it is, we'll find it. Oil is the primary source of energy. It is the power that moves the world and will be so for many years to come.

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Industrial Challenges

The two sides of industry have launched a joint appeal to the Government, to shift some of the burden of industry's health and welfare payments to general taxation. ■ The two giant state holding companies are engulfed by the privatisation debate; and ■ The smallest of the small have increased talk of dismemberment. ■ Italy's research spending is behind that of other industrialised countries.

THINGS HAVE gone so well in the past six years that Italian private industry, as P.G. Wodehouse might have said, definitely wears its hat on the side of its head these days.

But frequently not. It should be added, in the presence of Italy's three trade union confederations. In this company, brows furrow and serious-faced men talk sternly about the rising cost of labour and threats to the nation's competitiveness.

The warnings reached a crescendo at the end of last year, coinciding with the approach of national negotiations for the renewal of pay deals covering key sectors such as engineering, chemicals, clothing and food industries.

The first fruit of more than six months of persuasion and cajoling came in January when the confederations — the Cgil, the Cisl and the Uil — put their signatures on a compact which committed them to a joint effort with the employers to reduce the national rate of inflation and to seek to strengthen industrial competitiveness and pro-

A new united front

dexterity.

Confindustria has denied that it really wanted the unions to commit themselves to a pay ceiling for the coming pay round, and professes itself well satisfied with the outcome.

"This will be a very important help, because employers and unions have agreed on the parameters within which the sectoral negotiations will take place," said Mr Carlo Patrucco, the vice-president of Confindustria responsible for industrial relations. In addition, the union leaders will give "a stimulus" to the sectoral negotiations, to ensure that the outcome is in line with the inflation and competitive objectives.

For the first time, the two sides of industry launched a joint appeal to the Government to shift some of the burden of industry's health and welfare payments to general taxation.

Employers' social payments were, at the beginning of the last decade, substantially subsidised by the Government, but this aid has fallen so that the employers' share has risen from 38.3 to 42.5 per cent of the gross wage. The Government has agreed to produce reform proposals by the end of May.

Mr Patrucco envisages "very difficult" negotiations in the various industrial sectors, but no great social strife, because "the unions are more mature and the employers more conscious of costs." Italian industry

try, he says, cannot afford any further loss of competitiveness after a 10.5 per cent rise in labour costs last year.

Yet other people, it might be suggested, should have Italian private industry's problems. Financially, it has never been healthier after average annual profit increases of 38 per cent, including financial transactions, between 1985 and 1988, according to a Mediobanca survey.

If anything, manufacturers' shares of world markets rose last year when, in volume terms, export growth narrowly outstripped the rise in imports — this, despite rising labour costs and an appreciation of the lira against the currencies of Italy's main trading partners by about 3 points.

Private manufacturing industry's vulnerability is, in fact, being well protected by rising productivity — an overall 3 per cent in 1989 after 4.2 per cent in 1988. Nevertheless, Mr Patrucco insists competitive damage is being suffered as the rise in imports has been steeper than the fall in exports.

Imports have been rising, and not just in the traditional deficit sectors such as energy, chemicals and food. We are buying more engineering components from abroad, which shows that in some phases of production, Italy is not so competitive.

But he acknowledges that Italian exporters have shown remarkable resilience, given a domestic inflation rate slightly above the EC average

and, paradoxically, a strengthening currency.

"Three factors have been important," he says, "continuing investment in new machinery, continuing movement towards higher value added products and flexibility and entrepreneurial strength."

He and his fellow employers obviously feel that these remain somewhat fragile assets to throw into a balance which could easily be tilted in a negative direction by the various dis-economies in the Italian system — from inadequate infrastructures, public services and utilities, to a scarcely competitive banking and construction.

Rolando Valiani, Efim's chairman, notes that an historic function of Italy's state holdings, Iri and Eni, as well as his own corporation, was to salvage private-sector companies that had failed or were in serious difficulty.

The holding corporations

started as a means of avoiding the loss of the technological and human capital of private sector companies in troubled sectors," he says. Efim has fulfilled this role.

Mr Valiani describes Efim as another Iri. Indeed, one of its principal sectors, railway rolling stock, had previously belonged to Iri. However, Efim's 38,000 employees and consolidated turnover of about £500m mean that it is a small

John Wyles

THE WOLVES have been gathering round Efim (Ente Partecipazioni e Finanziamento Industria Manifatturiera), the smallest of Italy's three state holding corporations, for several years. Dismemberment appears to many in Italy's political and industrial packs an appetising response to questions posed about Efim's results and the industrial logic of its existence.

Established in 1962, it controls operating companies in six main areas: aircraft and helicopters, defence systems, collective transport systems, aluminium, glass, and plant engineering. Best known among Efim's products are Agusta's helicopters, Oto Melara's guns and missiles, Breda's railway rolling stock and Siv's glass for cars and construction.

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Efim 1988 highlights (£bn)		
Sector	Turnover	Net result
Aeronautical	1323.0	49.3
Collective transport systems	410.0	36.5
Defence systems	887.0	31.1
Aluminium	1063.2	8.1
Glass	1020.2	25.2
Plant engineering	281.2	(39.6)
Other companies	177.5	(54.4)
Inter-group sales/group costs	1256.1	(118.3)
Efim group consolidated	4805.3	(25.3)

Source: Efim

Losses blamed on lack of capital

relation, compared with Italy's first state holding, Unicar Iri, which has several important service and financial-sector subsidiaries. Efim concentrates on manufacturing.

Although Efim has returned a steady stream of losses, its results have improved. From a net consolidated deficit of £203m in 1986, the corporation's accounts showed losses of £108m in 1987 and £26m in 1988. Mr Valiani expects that last year's accounts will record further improvement.

"The holding corporations

should be dismantled if they are not owned by the private sector," he says. Efim has fulfilled this role.

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John Wyles

Two safe pairs of hands

THERE IS little coincidence, and even less irony, in the fact that the new chairmen of Italy's two giant state holding companies, Iri and Eni, should find themselves at the centre of quite furious debates over privatisation issues at the very start of their terms of office.

Italian politicians are now so defensive on this question that Mr Franco Nobile would not

have been appointed to Iri, nor Mr Gabriele Cagliari to Eni, unless they held "safe" opinions on the subject.

What with Mr Guido Carli, the Treasury Minister, telling his own government that privatisations could provide the urgently needed contribution to cutting the public debt, the EC promising ever tougher controls over government financing of public companies and the captains of Italian private industry campaigning for the virtues of privatisation, it is understandable that the Italian political class should be feeling somewhat besieged.

Nevertheless, the majority view in the Italian parliament is clearly that the state should, at the very least, hang on to 51 per cent of the strategic sectors which it now owns. In practice, it will not be easy for Messrs Cagliari and Nobile to dispose even of non-strategic sectors, since the politicians fear any diminution in their own powers of patronage and control.

Within these constraints, both chairmen have made it clear that they want to float minority stakes in many more of their companies on the Italian stock exchange. By appearing to be more than resolutely opposed to full privatisation at his first public press conference, poor Mr Nobile ran into such a storm from the press (largely in the hands of the captains of private industry) that this qualification in his position went somewhat unnoticed. In fact, he said that in a

period of three years he hopes that the proportion of Iri companies with stock exchange quotations would rise from two thirds to "three thirds".

Although Mr Nobile ran Cogefar, a large construction company acquired last year by the Fiat Group, before his appointment to Iri, he seems to think the actual identity of a company's shareholders to be rather irrelevant. One imagines that each day of additional experience may be forcing a correction of view, given the political obstacles to some of the objectives that he has set for Iri.

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Social challenges

A leading sociologist fears that the next decade may see the country dominated by super-elite "doers", while the rest of an ageing and inward-looking population sits on the sidelines.

- It may take 10 years to defeat Adriatic pollution.
- The state TV network is likely to lose its news monopoly.
- Illegal immigrants who declare themselves by June 30 will get health, housing and social security rights.

IF ITALY does not find new collective values to bind it together, the next decade is likely to see development peter out and internal divisions increase, says Giuseppe De Rita, the country's leading sociologist.

Mr De Rita, president of both the National Committee for Economy and Labour (Cnel) and its subsidiary, the Centre for the Study of Social Investments (Cesis), is concerned that Italy will be dominated by a new oligarchy of super-elite "doers", while the rest of an ageing and inward-looking population tends to sit on the sidelines.

This can only be countered by new collective values, he says, singling out the Catholic

'The threat from oligarchy'

church and Italian industry as the two groups most likely to support them.

"While oligarchies are by no means new to Italy, says Mr De Rita, they have never brought development when we've worked at it all together. During the last 45 years, Italy did not rediscover democracy alone. These years have also been characterized by a general proliferation of vitality, of all regions, trades and social groups."

Mr De Rita is worried by the formation of a "strong concentration of persons who work, assume responsibilities, and have initiative, and [the possibility] that this concentration tends to create an attitude of disengagement among the rest of the population".

The resulting scissors effect, between those who act and those who delegate responsibility to the former, is disturbing, he says. For Italian reconstruction, and the consequent development and wealth, was the fruit of a highly participative society, "a

developmental process in which the small artisan, the small transporter, the small manufacturer, still had a role".

Today, instead, most people continue with their daily life, leaving competition, development, the onset of the new Europe, to big industry, big finance, big politics. "We are returning to the narrow-based culture of 50 years ago." The result is that the country is divided into two factions: a minority, which continues to interest itself in the outside world; and the majority, which "is looking inward, a group which is satisfied with its current identity, eager to defend what it has and uninterested in new contexts."

Mr De Rita regards the current absorption with "internal" or domestic problems as disturbing for a country which, until recently, depended on the outside world for modernization and growth. He singles out the obsession with crime, the fear of delinquency, as particularly disturbing, almost as if the absence of an "external" war,

like fear of communism, had given way to an internal war or cancer.

The atmosphere has changed radically. In 1947, we returned to free trade. In 1958, we joined Europe: we looked outside ourselves for a new identity. Today, instead, we focus on things like traffic, urban life, crime, racism, immigrants, drugs, the mafia. Among our population, there are thousands of entrepreneurs who travel the world. But our collective consciousness is based on a sort of internal introspection: we look within instead of without."

How has this disparity, between "doers" and "voyeurs" come about? Mr De Rita attributes responsibility both to the country's current unparalleled wealth and to the ageing of the population - both in spiritual and demographic terms.

On the one hand, he says, Italy has been experiencing a loss of "aggressive vitality". In Mr De Rita's estimation, the country has always been "an adolescent country,

rough-edged but strong". The 1990s appears likely to turn Italians into a "more sophisticated and elegant people", but one that is also older, more closed, more tired, more depressed.

On the other hand, Italy also has been living "a season of great subjectivity", in which personal identity and personal satisfaction have taken prevalence over all else. Thus, Italian youth is more concerned with daily life - discotheques, school, clothes and soccer - than with the outside world.

One implication of Mr De Rita's analysis is that of decreasing political participation in the future. In contrast - and this is one bright light in a darkened scenario - in the last four to five years there has been a marked return to voluntarism. This means that more Italians are beginning to feel the need to open themselves to others, to establish real human relationships.

Sari Gilbert

New body to fight algae

THE GOVERNMENT appears to have taken the initiative in the debate on Italy's environmental problems, issuing a fistful of laws and profiting from divisions among the Greens.

There is considerable respect among environmentalists for Mr Giorgio Ruffolo, the Socialist minister for the environment. He cannot afford to relax, however, because ecologists, he says, from "the most

serious criticism levelled by the Greens. Mr Mario Signorino, president of Friends of the Earth, says that laws remain unapplied with a delay, for example, on the siting of waste plants.

Senator Marco Boato, a Green elected to the upper house from Trento, says: "The environment ministry has such a high level of responsibility that this risks becoming a boomerang because it does not succeed in facing up to its responsibilities."

For the ministry to be entrusted with drawing up a masterplan for the Adriatic is a matter of some pride, he says, but it "does not have the scientific nor the administrative skills". He would not be surprised if the job were farmed out to a state holding group.

Federchimica, which represents over 1,200 chemicals companies, and the employers' association Confindustria are alert to ecological problems and combined at the end of 1988 to set up the Institute for the Environment at Milan, which conducts research into the cost of reducing pollution and its technical aspects.

The institute intends to sell consultancy services in a market approach which also guides Confindustria's efforts to make each industry responsible for its waste recycling. Glass, plastics and metal containers consortia were set up in February, along the lines of a well-established industrial oil consortium which recycles 180,000 tons of the annual output of 600,000 tons, about 70 per cent of total.

Public opinion on the environment is to be tested on June 3 in referenda on curbs on hunting and pesticides, and in the May local elections. Now that the main parties have gone green to some degree, the field is not left to the Greens, who are also split between Sole Blu (Languishing Sun) and Verdi Arcobaleno (Green Rainbow).

Mr Francesco Rutelli, a deputy who entered parliament as a Radical Party member and is now with Arcobaleno, believes the Greens must swiftly put their house in order and start behaving like the fourth political force in Italy. Given that they took 6.2 per cent of the votes in last year's European elections, this is what they are.

John Simkins

John Simkins

Ownership will be curbed by new Bill

to come to a vote in the Chamber of Deputies after the spring municipal and regional elections. According to the author of the Bill, Mr Omer Mammì, it will move control of the Mass Media Minister, to acquire control of the Mondadori publishing group, to frage a political consequence.

Lest month, the Senate passed a comprehensive mass media Bill that sets curbs on overall ownership of media

THE MEDIA

instruments, and limits the extent to which newspaper publishers can own television stations and vice versa.

At the same time, by obliging anyone owning more than one television station to schedule regular news broadcasts, it will effectively bring to an end the news monopoly hitherto enjoyed by RAI, the three-channel state television network.

The Bill, which also sets guidelines for the distribution of television and radio frequencies, advertising sales and the frequency and timing of television commercials, is expected

to come into effect in October 1984 indirectly acquired control over Corriere della Sera as well. The powerful Ferruzzi company owns the Rome *Messaggero* and a smaller economic paper. But alarm bells really went off last spring when De Benedetti took over Mondadori, and then merged it with the important Roman press group, *Espresso* Editorial.

If the Senate version of the law is passed by the Chamber, Berlusconi's company Fininvest will be forced to sell its newspaper holdings. It would be allowed to hold on to those papers - the prestigious *La Repubblica* and the smaller *Il Giornale* - only if it sold one or two of its highly profitable TV stations.

In addition, Mr Berlusconi, a pioneer in television advertising, will no longer be able to sell ads to stations he doesn't own, thereby losing his effective influence over three additional channels.

Italy is the only major European country without regulatory legislation in the field of communications. A 1981 law, still on the books, sought to address the problem of industry's hold on information when it set a 20 per cent cut-off point on newspaper holdings by a single group.

The new law will bar daily newspaper ownership to one owner of three or more television stations. A newspaper publisher whose combined papers account for more than 15 per cent of national circulation, cannot own any TV stations. He can own one station if the circulation of his papers lies between 8 and 16 per cent of the national total, two if it is under 8 per cent.

Sari Gilbert

Visa policy reviewed

ITALY HAS had to acknowledge that, of its 1.3m non-EC immigrants, about 800,000 are there illegally, perhaps overstaying their three-month tourist stay for which visas have not been required.

At the end of February, Mr Claudio Martelli, Deputy Prime Minister, rushed a law through which regulates the presence of clandestine immigrants who declare themselves by June 30, giving them health, housing and social security rights.

IMMIGRATION

It did not grasp the nettle of putting a fixed number on non-EC immigrants, or close the frontiers for a period, as the Republicans within the governing coalition wanted, but directed that the number to be admitted on two-year work visas should reflect the needs of the labour market.

It is thought there were about 70,000 non-EC immigrants in 1988. "We prefer to talk of a planned flow than of a fixed number," said Mr Franco Caruso, diplomatic counsellor to the Deputy Prime Minister. "It is a philosophical criterion. We have a tradition of democ-

racy and tolerance and open-minded thought. We would like to maintain it."

The same tradition, however, has not prevented strong controls elsewhere in the EC. "If we say we can accept 25,000, we shall be very strict. We shall give 25,000 visas and the rest will be expelled," said Mr Caruso.

Prof Alberto Sobrero, of the Institute for Political, Economic and Social Studies (Ispes) at Rome, says the pattern of immigration has changed in the past five years, with an increase in people from the sub-Saharan countries, largely because French and UK barriers mean that they no longer use Italy as a corridor.

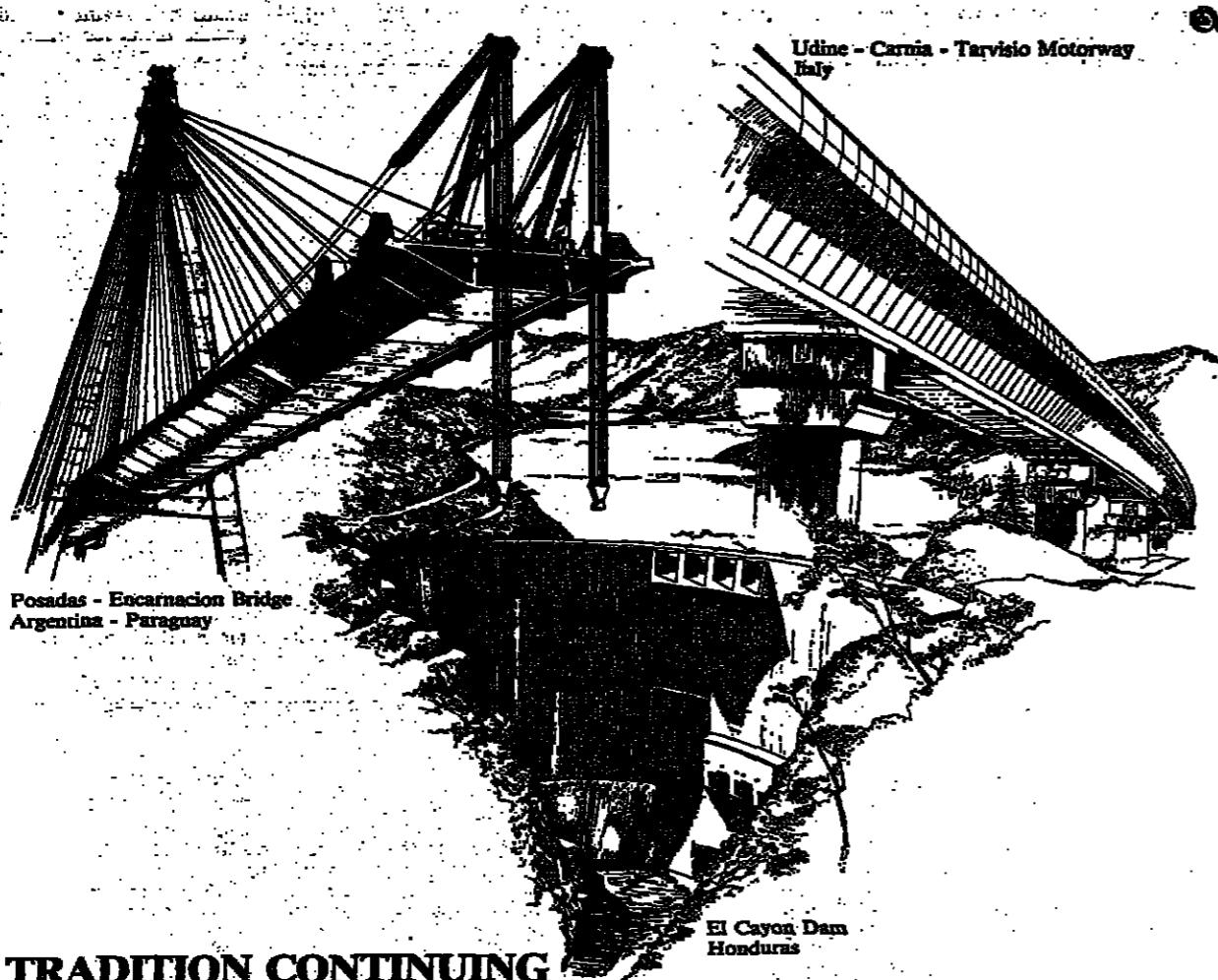
Prof Sobrero said: "The danger is that the 800,000 (clandestine immigrants) become seen as the cause of the evils. Already Italy says Africans mean drugs, prostitution, crime and lack of housing and jobs. It is not taken into account that the drug bosses are Italian and that the Africans are the labourers."

Prof Sobrero demands a political approach to immigration which reflects Italy's responsibilities as a world power within the context of the developed countries' relations with the Third World.

However, the Government, which at first gave itself until June to review its visa policy, may now move earlier towards imposing three-month entry visas.

John Simkins

John Simkins

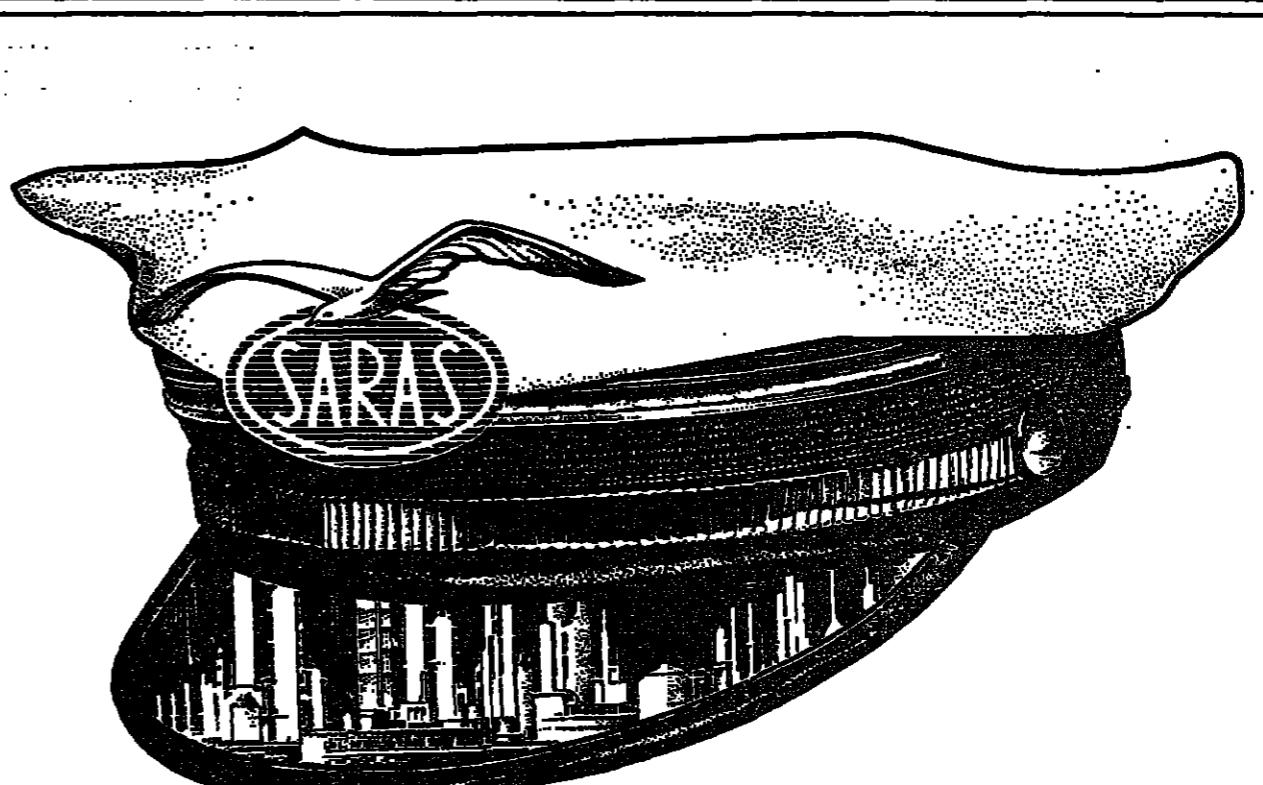


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Public services

Italy needs a telephone system worthy of a major industrial country in the last decade of the 20th century: today's fragmented and patchy approach is inadequate.

Half of the locomotives and two thirds of rolling stock on the country's railways are more than 20 years old.

The gap has grown between what universities offer and the needs of industry: the failure is most marked in engineering.

SLOW POSTS, over-crowded and inefficient hospitals, random power-cuts, poor telephone links, unswept streets, chaotic urban transport, problems in education and a small-paged bureaucracy - theills afflicting Italy's public services often seem beyond cure.

Low expectations of the public sector help explain the static malaise of Romans packed on the city's underground, Milanese suffering the frequent inconveniences of air travel to the capital, and Italians throughout the country who are forced to endure lengthy queues to pay utilities bills and long waits to receive their pensions.

But, handicapped by poor public services, business has become impatient and is

Industry demands a rapid improvement

demanding rapid and significant improvement. As the latest shot in its campaign to obtain more from the tax file, Italy's industrialists' confederation, Confindustria, recently organised a convention with speakers of the highest calibre to fire some salvoes.

The gap between public services in Italy and its European neighbours is a matter of concern, because it affects overall business competitiveness.

"Industry was radically reshaped in the 1970s and early 1980s, the modernisation process changing the mentality of trade unions, workers and management alike. This has not occurred in public services, and the efficiency gap between private and public sectors has widened," says Mr Luigi Abete, Confindustria's deputy chairman.

Mr Abete says the public sector has failed to move with the times, because a supplier-client relationship is missing. "Nobody appears to believe in the idea that a service should respond to the

needs of the customer. Public services are not market-oriented."

Detachment from the market starts at the top. Poorly paid and enjoying little incentive to produce results, management in Italy's public services is generally of a much lower standard than in the private sector. The notion of *il posto*, the secure public-sector job, is well rooted from blue-collar to top white-collar workers.

The issue of management is crucial. "With better management, cost savings of between 5 and 10 per cent could be achieved, operating with the same rules and without making any structural changes," claims Mr Abete, noting that cost-efficiency and cost-effectiveness are unknown measures in the public services.

Service quality fails to match the level of spending. In spite of investment in building infrastructure and high spending on salaries, output from public services is low. But getting what already exists to

work well and efficiently is difficult when staff do not have the objective of working better or quicker.

Although many Italians are sceptical, Mr Abete believes that politicians are now aware of the need for drastic corrective action. "They know the illness is serious, but until it is very painful they are scared to operate."

However, summoning the courage to take the scalpel to the patient is one of the biggest challenges for politicians and senior public sector managers at the start of the 1990s. Italy's industrialists are certain that it will happen, but wonder when.

If action is taken soon to encourage a market approach and efficiency, and to reward responsibility and results in public services, Italian business will be given a competitive boost. Businessmen prefer not to imagine the alternative of prostration and a widening gap with Italy's European partners.

David Lane

Alitalia is in better shape than railways, despite heavy losses

DEALING WITH bureaucracy is fraught with costly obstacles. And Mr Gastone Nardoni, chairman of the Italian Board of Airline Representatives (Ibar), paints a bleak picture of airline business in Italy.

"It is absurd that an intercontinental airport like Rome's Fiumicino does not operate a 24-hour customs service," he says. The airport's officers

TRANSPORT

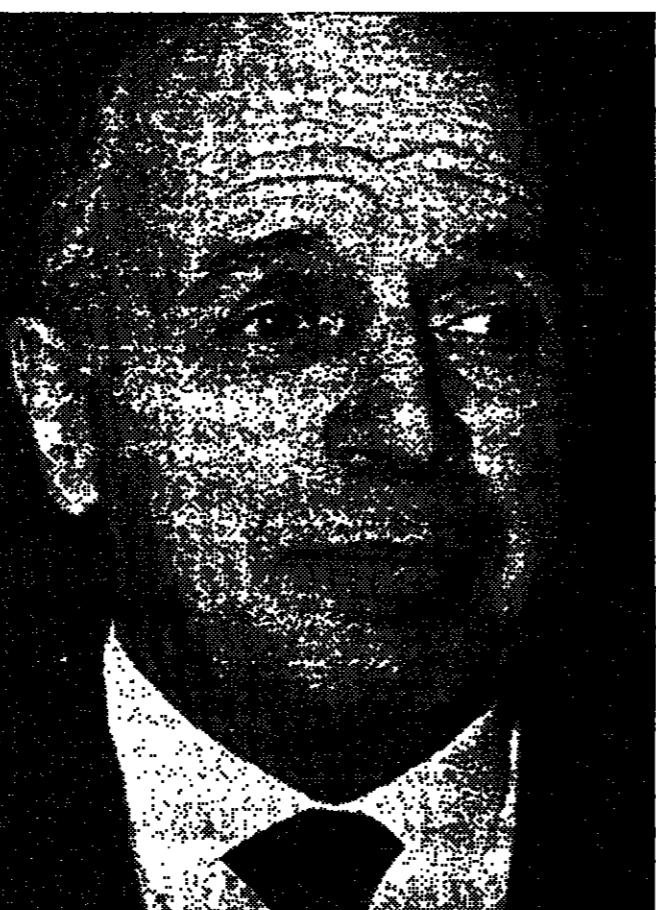
work from 8am to 2pm, after which airlines must pay overtime, in advance, for the customs services they require.

Ibar's members complain about having to pay for fire services when aircraft are replenished with passengers onboard; about the failure of Italy's state aviation authority, Azienda Autonoma Assistenza al Volo, to obey court decisions to repay L120bn of illegally applied navigation taxes; about the charges for dedicated check-ins at Fiumicino; and about the exclusion of the airlines from consultation in setting charges.

Clearly, some of these problems also affect Italy's state-controlled flag-carrier. But Alitalia enjoys a privileged position, not least in its membership of the Sangalli commission that established landing fees, handling charges and navigation taxes. Alitalia's place in the commission helps explain the anomaly of its absence from Ibar. "Why should foreign airlines foot the bill for inefficiency?" asks Mr Nardoni.

Moreover, Alitalia controls Rome's airport corporation, Aeropoli di Roma, a position raising questions of anti-trust, and Ibar is considering taking the matter to the European Court.

Pointing to the official and wildcat strikes and work-to-rules which afflict air transport in Italy, Mr Nardoni says it is easy to understand why



Mario Schimberni: a programme to turn the railways round

Nearly two thirds of passenger traffic is carried on less than one fifth of the track, and the 58.2m tonnes of goods transported in 1988 was the same as in 1927. The workforce of 210,000 is generally considered to be too large.

Such figures make restructuring a priority for Mr Mario Schimberni, the former Mondadori chairman, who is now the railways' special commissioner, presented a programme last November which aims to turn the railways round by the end of the century.

Mr Schimberni's plans forecast revenues covering 84 per cent of costs by 1998. But the programme requires investment of L54,700bn and substantial workforce reductions. It is difficult to see either being approved in full. Most likely the railways' restructuring programme will gather dust on office shelves.

But although 65 per cent of

19-year-olds go to university, particularly in research, from management, according to the statistic institute Censis, so many drop out that only one in three takes a degree. So while Italy has 16 per cent of EC students, it has only 8 per cent of graduates.

The minister says the gap has grown between what universities offer and the needs of industry. The failure is most marked in engineering, a five-year course. Italy is said to be short of 6,000 engineers, and graduates may be over-qualified for their first posts as there is no diploma at the HND level.

Mr Schimberni's proposals, some of which fall outside the remit of the law currently before parliament, have four principal strands:

■ Separation of the government role, which will be limited to directing university pol-

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ITALY 8

A unified network is the remedy

FOR THE Rome businessman trying to contact Milan, the telephone system generally provides an exasperating level of poor service. Obtaining a connection between central and northern Italy is a lottery, in which the odds are weighted against the user.

The national telephone company Sip claims that the overall figure for answer-service



Oscar Mammi: 'Division of responsibilities is a weakness'

ratio (ASR), the usual measure of network efficiency, is just over 50 per cent. But telecommunications consultants say the reality is worse than that.

The overall ASR includes urban calls, and the ASR for these is significantly higher than for long-distance calls, so ASRs of about 30 per cent on trunk and international services are probably nearer the mark.

Mr Oscar Mammi, Minister of Posts and Telecommunications, admits with engrossing frankness that the country's telephone system leaves much to be desired. Institutional problems are part of the trouble. "The division of responsibilities between several bodies is a major weakness," he says.

In addition to Sip, two other organisations are involved in telecommunications: Italcom, a sister company responsible for intercontinental communications; and Azienda di Stato per i Servizi Telefonici (AST), a ministerial department tasked with ensuring domestic inter-city and continental trunk communications.

"We urgently need a unified network and management in order to achieve rational and better service," says Mr Mammi. Two years ago, in April 1988, he placed a Bill

before parliament which aimed to transfer AST and its 14,000 staff from his Ministry to Sip - a proposal generally considered to offer an important step forward.

"I hope that discussion of the Bill will soon restart. It contains only seven articles and could be approved quickly," says Mr Mammi. "But it would be unwise to forecast when it will be enacted," he adds, acknowledging that trade-union opposition and difficulties in parliamentary scheduling.

Telecommunications consultants are concerned that the change should happen soon, pointing to a worsening situation. Solving the problem of making Italy's telephone system worthy of a major industrial country in the last decade of the 20th century depends largely on unification and coordination. Today's fragmented and patchy approach is inadequate.

Certainly, Sip is spending substantial sums in seeking solutions to its problems. The minister considers that putting telecommunications in

order is an easier task than improving the postal system. As with the telephones, Mr Mammi believes that unravelling an institutional tangle is fundamental to the task.

Draft legislation that would remove Italy's postal service from the ministry and make it an independent body has been awaiting parliamentary approval since April 1988.

"There is no open opposition to the Bill, but people are scared by the radical changes proposed," says Mr Mammi. He says that the body, most likely a public authority rather than a joint stock corporation, must be given the financial target of breaking even, with sanctions on the governing board if this is not achieved.

A major problem in restructuring the postal services along the lines foreseen by Mr Mammi is the transfer of 240,000 civil servants. In their present ministerial working environment, custom and practice encourage many forms of inefficiency.

Employment in the postal service has been a social shock-absorber for southerners. Staff recruited from the south to work in the north then ask to be transferred home. Many, recruited as postmen, ask for transfers to office jobs. Absenteeism is high and productivity generally low," says Mr Mammi.

Italy's Minister of Posts can claim progress during his three years in the job, and not only in cutting the average letter delivery time from 8.5 to 4.5 days. His two Bills have signposted the way forward. And with his micro-privatisation of express delivery services in 12 cities, he has given a provocative prod to the system.

David Lane

Peaceful opposition to reforms

MR ANTONIO Ruberti, the Minister for Universities and Research since June 1988, is not in the least pentitent. After three months of student occupations in most of the faculties in Italy's 55 universities, he continues to push through his reforms with little modification.

The students have relented sufficiently to allow lectures

EDUCATION

and exams to resume, but threaten more action if a law allowing universities more autonomy is passed in May.

"I am convinced that eventually the students will be my allies, because the reforms are for them," said Mr Ruberti, a socialist and former rector of Rome's La Sapienza university - adding with a chuckle that the *Panteri*, or Panthers, as the loose-limbed student movement became known, was my press office". It provoked debate about his proposals and institutions and industry have expressed approval.

The shortcomings of universities have much to do with a highly centralised system that means that decisions about spending, the degree structure and teaching staff depend largely on Rome. Moreover, all 19-year-olds who pass the matriculation school-leaving exams have the right to enter university. This causes pressure on inadequate services, particularly in the first year.

But although 65 per cent of

Number of students per teacher: principal degree courses 1988-89		
	Minimum	Maximum
Manufacturing science	14.1	Potenza 3.0
Chemistry	18.9	Ferrara & Capri 8.7
Medicine & surgery	35	Udine 2.5
Engineering	18.3	Rome Tor Vergata 2.6
Architecture	41.5	Reggio Calabria 26.0
Agriculture	11.2	Salerno 2.2
Veterinary surgery	17.7	Sassari 6.0
Economics	48.2	Urbino 27.2
Political science	32.1	Teramo 16.4
LAW	70.3	Rome 20.8
Arts & philosophy	21.9	Rome Tor Vergata 8.3
Magisterio*	26.8	Perugia 9.3

*Includes education, sociology, psychology and languages

Source: Censis

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The regions

For all its achievements in enterprise and in wealth creation, Italy remains a divided country, not only in its distribution of wealth, but also in its attitudes to the state, social responsibilities and public ethics.



ITALY'S REGIONAL diversity has more often than not been a source of national strength rather than weakness.

It is still a matter of debate whether, 120 years on, the nation has really created Italians — the initial task set for it by Italy's first prime minister, Camillo di Cavour. But even if Lombards, Piedmontese, Sicilians and others have without the meeting point, their interactions have created a dynamic and creative society.

Yet, for all its achievements in enterprise and wealth creation, Italy remains a seriously divided country, not only in its distribution of wealth, but also in its attitudes to the state, social responsibilities and public ethics.

The farther south you move, the more public expectations of, and confidence in, the state diminish; the greater the incidence of contempt for certain standards of behaviour; the more widespread the phenomenon of political and business corruption — until, you arrive in the regions of Calabria and Sicily, where life barely fails short of the Hobbesian state of war of man against man.

Most Italians would find this description "excessive," because many social decentries are, indeed, preserved by the strength of loyalty to the family, the village and the Roman Catholic church. But there are very large areas of both Calabria and Sicily where social and economic life and individual behaviour is polluted by organised crime, and where rivalry between mafia bands delivers

The south remains a costly millstone

a murder rate in a town-like Reggio Calabria of close to 2000 a year.

All experts these days acknowledge that organised crime may be the fundamental obstacle to the raising of economic standards, not just in Calabria and Sicily, but also in Naples and elsewhere in Campania, where the Camorra, the local mafia, grows in power. The phenomenon is even emerging as a threat in parts of Puglia, which has made substantial progress. In the last 20 years, the Mezzogiorno's economic and social backwardness.

Switzerland, the association for provincial industrial development in the Mezzogiorno, gave pride of place in its annual report last year to its conclusion that, in Campania, Calabria and Sicily, organised crime was now fully able to "condition" political decisions on contracts, supplies, concessions, recruitment and the provision of public services.

Yet, the problem rarely receives the treatment it deserves, considering the words, and lira, devoted every year to long and learned discussions on the Mezzogiorno problem.

The Italian state has pumped more than L100,000bn into the region over the last 40 years. In return for its money, it has achieved a per capita income that is 59 per cent of the national average (rather less than it was in the 1970s) — to say nothing of a 21 per cent rate of unemployment (more than three times that of the north), of which more than 40 per cent is under the age of 25.

It can still be held that, without this vast expenditure on infrastructure and industrial plant, albeit rather too much of a "cathedral in the desert" variety, the region would have fallen even further behind. But what 40 years of "special interventions" have failed to achieve is a solid base of locally generated activity in industry and services. Well, over half the 417,000 manufacturing jobs created between 1951 and 1988 in the Mezzogiorno were non-southern companies, 48 per cent of whom were private and 41 per cent public.

JUST 30 miles from Milan, but a world away from its bustle and noise, lies Bergamo. In hilly countryside abutting the southern Alps, the province is a tourists' paradise.

At the heart of the province (population 921,000) is Bergamo itself, a prosperous city of 118,000 inhabitants. With its trees and wide promenades, colonnaded Piazza Matteotti, which leads to the Teatro Donizetti, named after one of

Halg Simonian sees the prosperity of BERGAMO

city's most famous sons, it has more than a whiff of elegant spas like Bath and Wiesbaden.

But it is the upper town that attracts most outsiders. Lying strategically between the Milanese and Venetian spheres of influence, Bergamo was ruled by both powers before coming under the control of Napoleon, and then the Austrians.

Most of those businesses are small, with less than 300 employees, making Bergamo typical of much of wealthy northern Italy. Even Italcementi, the biggest employer in the province, only has 3,573 on the payroll. A range of family firms produce a variety of finished and semi-finished goods.

The Venetians left the biggest mark, with powerful ramparts encircling the upper city and creating a paradise of alleys, handsome churches and imposing public buildings, capped by the city's distinctive Piazza Vecchia.

But while scores of Swiss

and Germans stream across the border to take in the

Diversity and the air of a spa

sights, it is more for industry than tourism that the hard-working and entrepreneurial Bergamese are known to their fellow Italians. For Bergamo is one of the richest of the 11 provinces of Lombardy, which itself accounts for about one third of Italy's GNP.

Unlike neighbouring Brescia, renowned for its shoe industry, Bergamo has a diverse manufacturing base. This is one of its strengths, and has protected it from economic crises in the past, reckons Mr Giulio Cristofolini, an official at the provincial industrialists' union.

A strong local financial structure is another part of the story. Bergamo houses three substantial banks: Banco Popolare di Bergamo, Banca Provinciale Lombarda and Credito Bergamasco.

All have deep roots in local business. Indeed, the attraction of the local financial market, which in turn reflects the entire province's economic well-being and prospects, was shown last year when Credit Lyonnais, of France, paid a massive \$35m for almost 49 per cent stake in Credito Bergamasco, a bank, which has just 89 branches and about

1,500 staff, including its Venetian subsidiary.

The importance of foreign markets is certainly a lifeline among local businessmen. And exports account for about 50 per cent of aggregate turnover among the province's companies.

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30 years. This yields one clue to the very respectable level of material consumption among the town's 62,000 people, who are served by all of the standard Italian designer stores and car dealerships.

The state was not ungenerous with the sulphur miners, many of whom were able to retire early on so-called disability pensions, said to be worth up to £2m a month. Add in several thousand other dependents of the state in the communal, provincial and parastatal bureaucracies — many of them transparently underemployed — and you have the elements of a population on maintenance of one kind or another.

Within the town, there is a manifest reluctance to blame its economic backwardness on the mafia. Some shopkeepers may well pay protection money, but the burden is nothing like as serious as in Palermo or Naples. The most typical response is to acknowledge that the mafia is a deterrent to inward investment in Sicily, but then to minimise its significance.

We have some examples of spontaneous entrepreneurship, but too much is suffocated by the politicians," counters Mr Giarratano. He points out that Caltanissetta is not borne of an agricultural culture, having been the centre of Sicilian sulphur mining until it ceased to be economic and was thus forced to shed its 9,000 labour-force over the last

Domestic water one day in six

CALTANSETTA is a not particularly edifying mix of old brick and modern concrete, which sits on a rather steep hillside in the heart of Sicily.

The town may not rate a mention in any Michelin guidebook, but it has at least two claims to fame: its inhabitants have the lowest per capita incomes of any provincial capital (about £11m), and it is the home of that most glorious of Italian digestifs, the amaro Averna.

Lovers of this dark, rather soupy liqueur, whose first taste resembles the cough medicine of one's youth, may find it hard to credit that Caltanissetta remains an economic failure despite the success of the Averna family in transforming a local brew into a national name.

In fact, the town exhibits almost all of the characteristics of the under-developed south, ranging from a large scarcity of manufacturing industry to an excessive dependence on state transfers of one kind or another.

The province as whole has

just one sizeable employer for its 262,000 population — the Enimont chemicals plant, at Gela, with 2,000 workers and a great deal of small-scale fragmented agriculture, largely grains or horticulture.

Officially, unemployment runs at 25 per cent, but two prominent local politicians, Cosimo Cigna, the president of the province, and Salvatore

John Wyles observes the economic plight of CALTANSETTA

been developed for capturing fresh water and developing wells.

Following two years of drought, water is now available for domestic use in Caltanissetta for one day in six. The politicians are now talking about the need for a desalination plant at the coast, but, as one housewife said, "We are reconciled to the fact that we

shall be living without water for many more years."

Even the Averna plant, which employs more than 100 people and buys in its supplies from private sources, is having difficulty in meeting its requirements. But, as Mr Giulio Giarratano, director of the town's Union of Industrialists, points out, "industrial development is very difficult to sustain without water." And it is no easier, he adds, without a decent railway system and without a public administration which has any sensitivity to entrepreneurial needs.

Mr Giarratano's association counts 135 members through-

out the province, each with 10 or more employees and an average turnover of £500-600. No one, it seems, sees these activities as offering much further growth potential.

Italstat, the state civil engineering group, has devised a development plan for the province which will seek to encourage more artisanal activity but

believes that real entrepreneurial energies must come from the outside.

"The conditions for industrial development do not exist here," says Mr Cigna, listing the absences a native entrepreneurial spirit.

"We have some examples of spontaneous entrepreneurship, but too much is suffocated by the politicians," counters Mr Giarratano. He points out that Caltanissetta is not borne of an agricultural culture, having been the centre of Sicilian sulphur mining until it ceased to be economic and was thus forced to shed its 9,000 labour-force over the last

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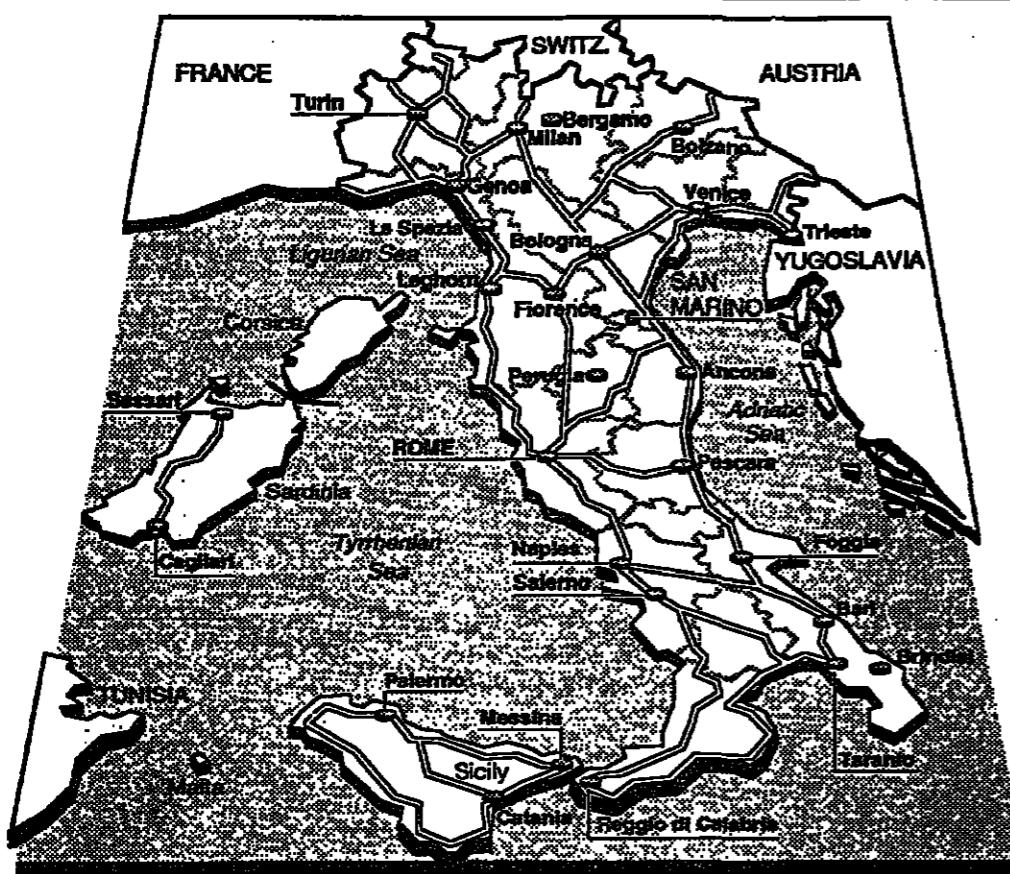
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ITALY 10



KEY FACTS: 1989

(1988 figures in brackets)	
GDP (L'000bn)	1,180,000 (1,079,000)
Real GDP (L'000bn)	921,430 (851,994)
Real GDP growth 3.3 per cent (3.9 per cent)	
Real GDP growth 1979/89	2.5 per cent
Current Account (\$m)	-10,532 (-4,373)
Merchandise exports (\$m)	14,911 (12,619)
Merchandise imports (\$m)	162,977 (138,400)
Trade Balance (\$m)	-12,280 (-6,900)
Consumer prices increase 1988-89	6.2 per cent
1987-88	5.1 per cent
1979-89	11.4 per cent pa

Source: IMF and Bank of Italy

Readers go to the fair

WIMBLEDON means tennis to many people, but to readers of the Rome daily, *La Repubblica*, it is a complicated literary game which appears at the back of the paper's weekly colour supplement *Venerdì* (Friday).

Since its launch 13 years ago, *La Repubblica* has done much to push the reading habit in a country not much addicted to it — a recent Corriere della Sera survey reckons

LITERATURE

that only 50 per cent of Italians ever opened a book.

Few Italian novelists have made a real impact abroad, apart from the omnipresent Umberto Eco and, possibly, Primo Levi, whose *If This is a Man*, published in 1947, only appeared in English translation in 1985.

The figures quoted at Italy's first national book fair, which opened in Turin two years ago, come as no surprise: 25 per cent of all Italian publications are translations, which in turn make up nearly 75 per cent of Italian publishing sales.

These include sociologists such as Francesco Alberoni, who writes a weekly column for Corriere della Sera; computer expert Luciano De Crescenzo, whose entertaining, debunking colloquial-style *History of Greek Philosophy* is a new departure for the Italian market; and readable modern history by journalists such as Indro Montanelli and Enzo Biagi. Giulio Andreotti, the prime minister, has rarely failed to hit the best-seller lists in recent years with his series of reminiscences, *Visto da Vicino* (Seen from close quarters).

But in the last two years a good deal has changed. Italians are reading more. There has been a proliferation of national book-fairs. Turin opened two years ago, Naples last year and

Florence this spring, as well as the long-established and thriving Bologna Children's Book Fair.

New bookshops, such as Feltrinelli's super-modern, three-storey branch, which opened in Rome's historic centre earlier this year, are bringing a breezy approach to bookselling.

The literary scene is still dominated by the three giants: Umberto Eco (who thought the English version of the Rose better than the original), Italo Calvino, and the Sicilian Leonardo Sciascia, who died suddenly last November.

In some ways a lonely and isolated figure, Sciascia was rightly admired for his integrity and his balanced and merciless analyses of unpleasant facets of Italian life, notably the Mafia. Two posthumous works appeared in January.

The greatest gap in the Italian publishing market — that catering for middle-brows who simply want a good read — has been filled in the last five years by a band of skilled specialist journalists.

These include sociologists such as Francesco Alberoni, who writes a weekly column for Corriere della Sera; computer expert Luciano De Crescenzo, whose entertaining, debunking colloquial-style *History of Greek Philosophy* is a new departure for the Italian market; and readable modern history by journalists such as Indro Montanelli and Enzo Biagi. Giulio Andreotti, the prime minister, has rarely failed to hit the best-seller lists in recent years with his series of reminiscences, *Visto da Vicino* (Seen from close quarters).

But the real news of 1989 has

been provided by women. They were prominent in the best-seller lists and dominated the Christmas choices of the critics. A woman, Donatella Barbanti, has taken the place of Italy's best-known literary agent, the late Erich Linder, and Roberta Marzanti has started *Astrea*, the Italian equivalent of Virago, as a publisher of female authors, under the umbrella of the publisher, Giunti.

Many who emerged last year are not in their first youth. These included Rosetta Loy, who won three prizes in 1989 (the Vlareggio, Rapallo and the Supercampiello) for her *Le Strade di Polvere*, nor first-time authors, such as Clara Sereni, whose *Casalinghiudine* (Domesticity) was published in 1987.

Clara Sereni's latest, *Mamiccio Primavera*, came third in last year's Strega award: no mean feat considering the quality of the competition. Clara Sereni is caustic, however, about the selection committee behind the prize. Her book, a series of short stories all recounting painful experiences of one kind or another, was described by one of the judges as "most unusual". No one, she says, who had read the book could have thought it funny.

Francesca Duranti, winner of last year's Campiello prize, feels that the recent successes of women should be kept firmly in perspective, quoting Susan Sontag's dictum: talent has no sex. Sex may be irrelevant, but any radical change in the market is surely a sign of vivacity.

Jennifer Grego

Still behind in top jobs

FOUR NEW magistrates were recently assigned to the prosecutors' office in Locri, a city in one of the most crime-ridden areas of Calabria, in the south. All were young women under the age of 35.

Like the recently announced plans of the Carabinieri military police corps, to open at

WOMEN

least its lower ranks to the gender sex, it was a sign of the changing role of women in a once traditional society.

A traveller returning to Italy after 15 years would immediately be struck by the changes. Heavily-armed women police officers share patrol cars and foot-duty with male officers. Female bus drivers and airline pilots have made their first appearance. Long-haired females in jeans and leather jackets no longer sit primly on the back of motor-cycles, but drive them.

The 1977 law on parity in the workplace guarantees Italian women equal salaries and benefits. And a new family law ended centuries of male dominance of the family.

But there is still a lot to be done, says Tina Anselmi, a member of parliament who is president of the Government's national commission for equality between women and men. Moreover, the shift in women's values — toward work and autonomy and away from family and dependence — is not painless, and is likely to have a profound effect on demographic and social structure.

For example, with more women being lured into the job-stream, fertility rates have declined to a record low; marriages are dropping; households are becoming smaller; and separations and divorces are rising, albeit slowly. New female graduates, along with divorced or separated women, are swelling the ranks of those looking for first jobs.

Between 1981 and 1988, female unemployment rose from 14.4 per cent to 18.7 per cent. In addition, while women represent 51.3 per cent of the population, they still make up only 34 per cent of the work force.

"If you consider that Italian women only got the vote in 1945, then it is clear that they have come a long way," says

Tina Anselmi, a former Christian Democrat Minister of Labour. She cites particularly encouraging the fact that 50 per cent of high school students are now women, and that in the last two years more women high-school graduates than men have taken jobs.

"But when it comes to the role of women in our institutions and decision-making centres, we are still lagging behind," she says. Although 12.7 per cent of Italy's members of parliament are women — more than in either the UK or the US — they are poorly represented in the command posts of political parties, unions and banks. Women make up only 6 per cent of municipal or regional representatives. Only 200 of Italy's 8,951 mayors, and 400 of its 5,260 state managers are women.

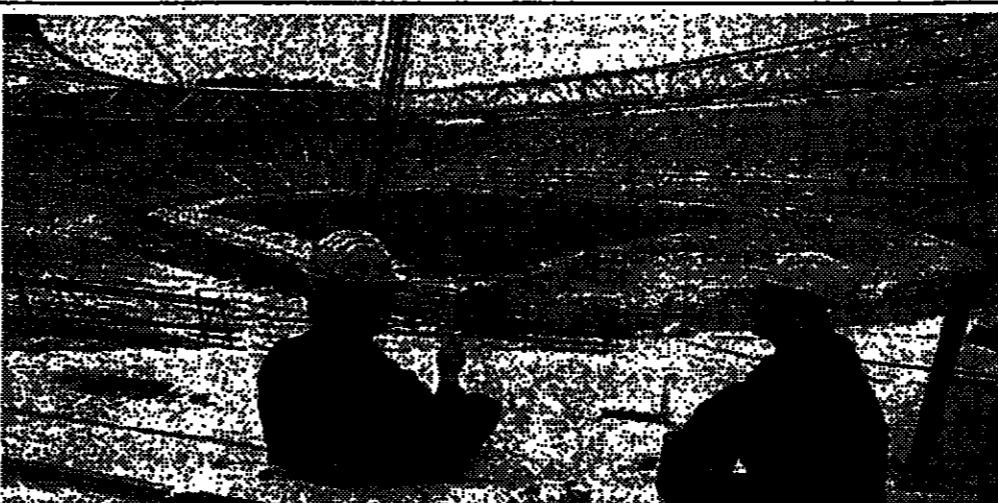
The commission is encouraging political parties to run more women for office in next month's local elections. After pressure from their women's section, the Communists pledged to fill 50 per cent of the seats in its party lists with women; and other parties are moving in the same direction.

The major change seems to be in attitude. Sociologists report that few women feel that the recent successes of women should be kept firmly in perspective, quoting Susan Sontag's dictum: talent has no sex. Sex may be irrelevant, but any radical change in the market is surely a sign of vivacity.

Francesca Duranti, winner of last year's Campiello prize, feels that the recent successes of women should be kept firmly in perspective, quoting Susan Sontag's dictum: talent has no sex. Sex may be irrelevant, but any radical change in the market is surely a sign of vivacity.

And many men, and women, are still reluctant to vote for women. One of the most difficult goals will be to reconcile women's right to work with their family responsibilities, says Ms Anselmi. "We need things like flexible work-hours and greater social assistance. But it's not always easy to convince male decision-makers that things are really important."

Sari Gilbert



Anxiety before kick-off

ALTHOUGH ITALY was allocated this year's World Cup finals as long ago as 1984, serious preparations began only in 1988. Most of the construction and reconstruction, to prepare the 12 stadiums, has been effected only in the last 12 months. Much is still going on, and the stadia in Rome, Palermo, Naples and Florence will be ready only days before kick-off.

The month-long sports spectacular involves 24 nations, 528 players, 52 matches, 8,000 journalists, 2 m tourists and 15bn viewers.

The organising committee has had to face a tide of indecision, changes of plan, strikes, 16 building-site deaths, and political wrangles. Turin's *giants* fell at least twice, because of rows about the spiralling cost of its new stadium. Naples and Florence have compromised their entire World Cup by slow decision-making. Central government funding (originally made

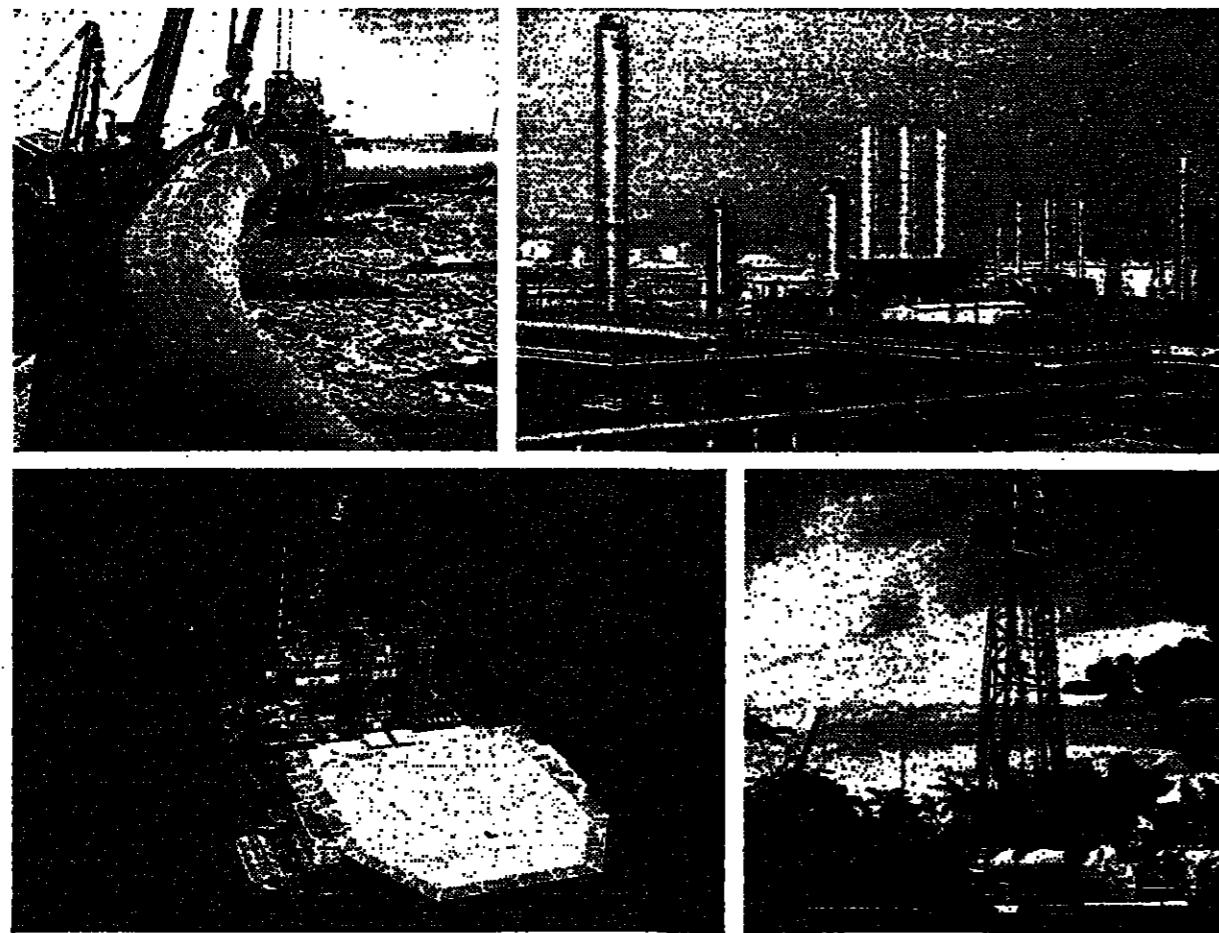
available only in July 1988) shrank from an initial \$2.75bn to £1.35bn nine months later, when the original ministerial decree was not ratified in parliament within the statutory time-limit of 60 days. Meanwhile, on many of the 130 projects in the 12 host cities, time has been lost.

RAI, Italian state television, is well able to provide fine coverage. However, the crews need access to the stadiums well in advance, in order to run tests and experiments. Yet work on Rome's Olympic stadium (pictured), for example, site of the Final, will finish only eight days before the first game.

The *Olimpico* has proved to be the biggest scandal so far, the cost of its reconstruction having spiralled from \$1bn to probably more than £200m. Bari and Turin, in contrast, have built new stadiums for \$65m and \$60m respectively.

—Patrick Agnew

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